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UNITED STATES DEPARTMENT OF AGRICULTURE

THE AGRICULTURAL OUTLOOK FOR 1961

by

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Assisted by

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at the 38th Annual Agricultural Outlook Conference

Washington, D. C., 2:00 p.m. November 14, 1960

Total farm production in 1960 is now expected to establish a new alltime record high--29 percent above the 1947-49 average. If so, it will also be a record high on a per capita basis. This increased output is being achieved by around 30 percent fewer farm workers and on 5 percent fewer crop acres. The continuing and persistent upward trend in production is one of the central facts in the current agricultural situation and outlook. The average yield of 28 field crops now stands at 40 percent above the 1947-49 average.

Importance of Wheat, Cotton and Corn

Only three of these crops--wheat, cotton, and corn--account for 47 percent of our total planted cropland in 1960, and 48 percent of the value of all crop production (Figure 1). They supplied about 18 percent of farmers' total cash

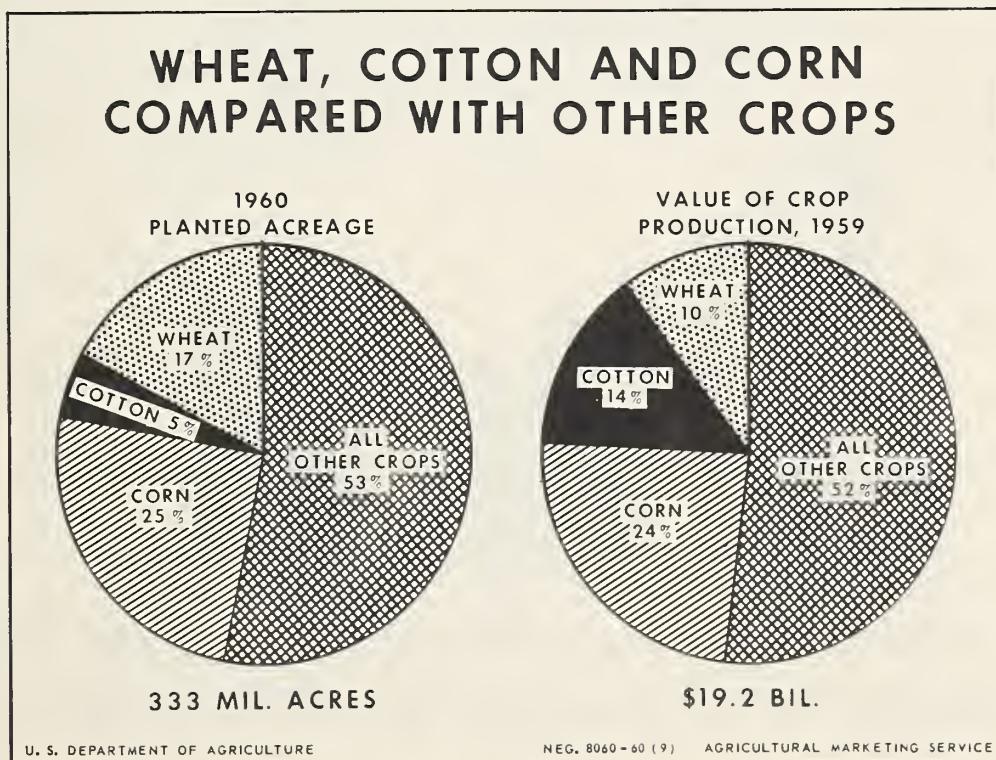


Figure 1

receipts from the sale of farm products. These three crops are among those for which farm prices are supported by purchases and loans of the Commodity Credit Corporation. Together, they are responsible for most of the cost to the Federal Government for price supports and surplus disposal. In mid-1960, wheat, cotton, and corn accounted for some 80 percent of total CCC investment in price-support loans and inventories.

Cotton and corn production in 1960 was not much different from 1959, but wheat production was 21 percent greater. With price support levels only slightly lower than in 1959, production that could not be sold in the market at those levels was necessarily acquired by the Government and added to carry-over or disposed of by the Government under special programs designed for that purpose. But despite the continuation of acreage allotments for cotton and wheat, and in the face of expanded activity under Public Law 480 and other special programs, as well as record disappearance of feed grains per animal unit here at home, the carryover of wheat and corn in 1960 has increased over 1959. However, the carryover of cotton has been reduced from 8.9 to 7.6 million bales by so pricing American cotton as to make it competitive in world markets with foreign growths (Figure 2). If no action is taken to change current Government programs, and if we continue in the present cold-war peace, the wheat carryover next July 1 will be $1\frac{1}{2}$ billion bushels or 200 million bushels more than last July 1. The carryover of corn next October 1 will be 2 billion bushels or 200 million bushels more than last October 1. Prospective

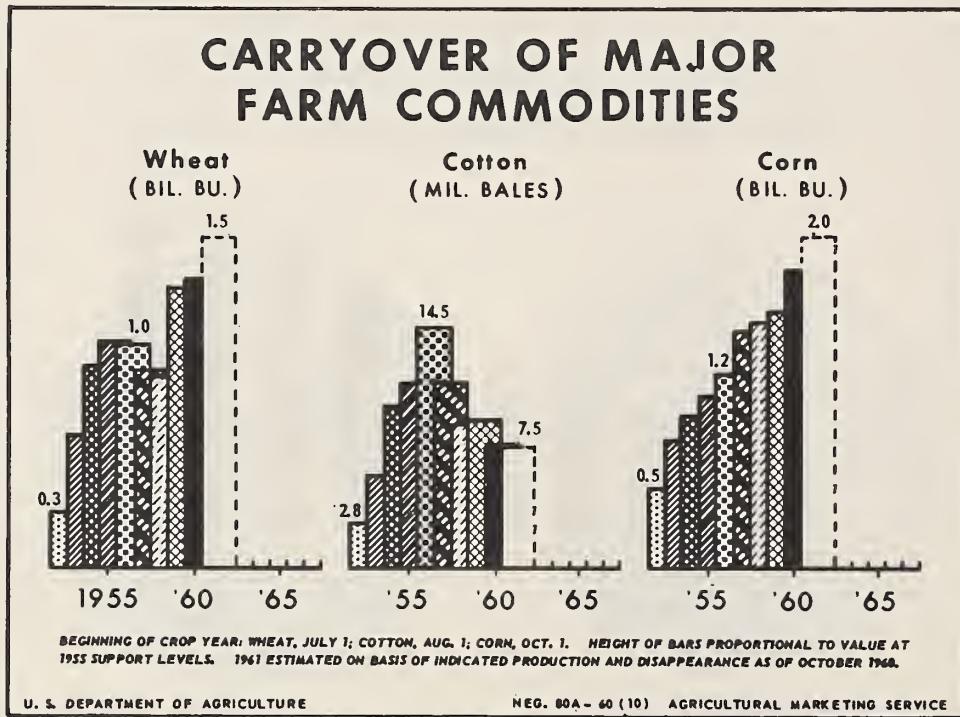


Figure 2

domestic use and continued large exports suggest that disappearance of cotton in the current marketing year might be a little larger than the estimated 1960 crop of 14.5 million bales. If so, the carryover next August 1 may be down some. The national cotton acreage allotment was recently raised a million acres.

The Secretary of Agriculture has announced that the minimum price support level for 1961 crop wheat has been set at \$1.78 per bushel (national average); those for cotton and corn have not been announced as of this date.

Corn is our most important feed grain. Unlike cotton and wheat, only about 35 percent of the corn crop is sold from farms where produced, and 65 percent of it is fed to livestock on farms where grown. Together with sorghum grain, barley and oats, our corn supplies are related to the level of production of livestock and livestock products. The total production of these four feed grains in 1960 is now estimated at 165 million tons, almost as high as the record 1959 production of 166 million tons. Despite the fact that the amount of concentrates fed per animal unit has increased every year since 1955 (and now stands at almost a ton per year per animal unit), the combined carryover of the four feed grains has also increased every year since 1955. It increased from 68 million tons on October 1, 1959 to 75 million tons on October 1, 1960; and is expected to increase to 82 million tons by next October--or to a level of about half of a year's crop (Figure 3).

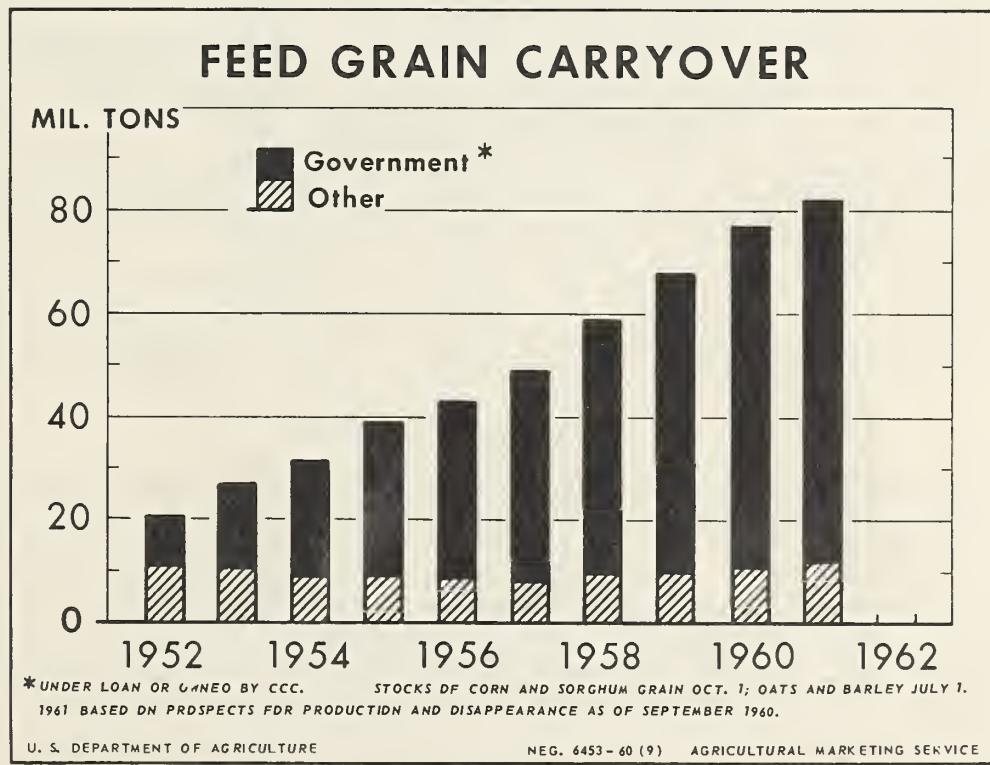


Figure 3

Livestock Production High

Output of livestock and livestock products in 1960 is estimated as about unchanged from the high level of 1959; increased output of cattle, milk, broilers, and turkeys about offsets reduced production of hogs and eggs. Livestock production will probably increase some in 1961. The further buildup in cattle numbers assures larger marketings of cattle and calves in 1961 (Figure 4). Hog production also will turn up in 1961, but marketings are likely to continue relatively light at least until the latter part of 1961. Milk production is expected to rise slightly, and the uptrend in broiler production will probably continue into 1961. Egg production is likely to rise in the latter part of 1961.

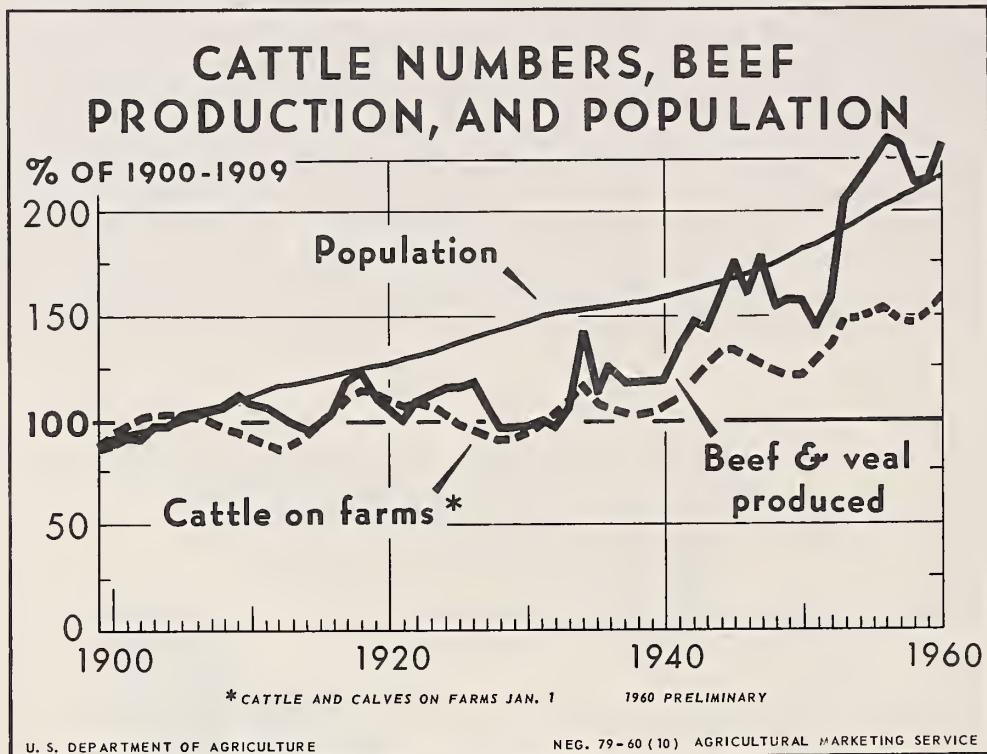


Figure 4

Price Support Activities

Commodity Credit Corporation investment in inventories and price support loans totaled \$8.826 billion on August 31, 1960, as compared with \$8.757 billion on August 31, 1959. In the coming year CCC investment is expected to increase further. Most of the increase in wheat production is expected to move under price support, and stocks of corn are also expected to rise. The Federal Budget for Agriculture and Agricultural Resources estimates an increase for fiscal year 1960-61 of \$400 million for CCC investment in price support, surplus disposal and related program expenditures.

The net of all this is the prospect for continued large supplies of farm products in 1961.

Prospective Demand in 1961

Domestic demand for food and farm products is expected to be well maintained in 1961 (Figure 5). Usually, relatively short-run changes in consumer incomes do not materially influence the domestic market for farm products. So far this year, consumer incomes have been running about 5 percent above a year earlier, supporting a strong domestic demand for farm products. Consumer incomes are expected to total somewhat higher for 1961 as a whole, although some slackness has developed in the economy. On balance, the economy's output of goods and services for some months ahead is not expected to vary much either up or down from current levels. Declines in some sectors are expected to be largely offset by strengthening in other sectors, with some renewal of expansion likely in 1961 as the year progresses. A prospective increase in Government expenditures, a continued though moderate increase in consumer buying, and possibly some increase in residential construction in 1961 should largely offset any weakness that may develop in business investment and inventory demand.

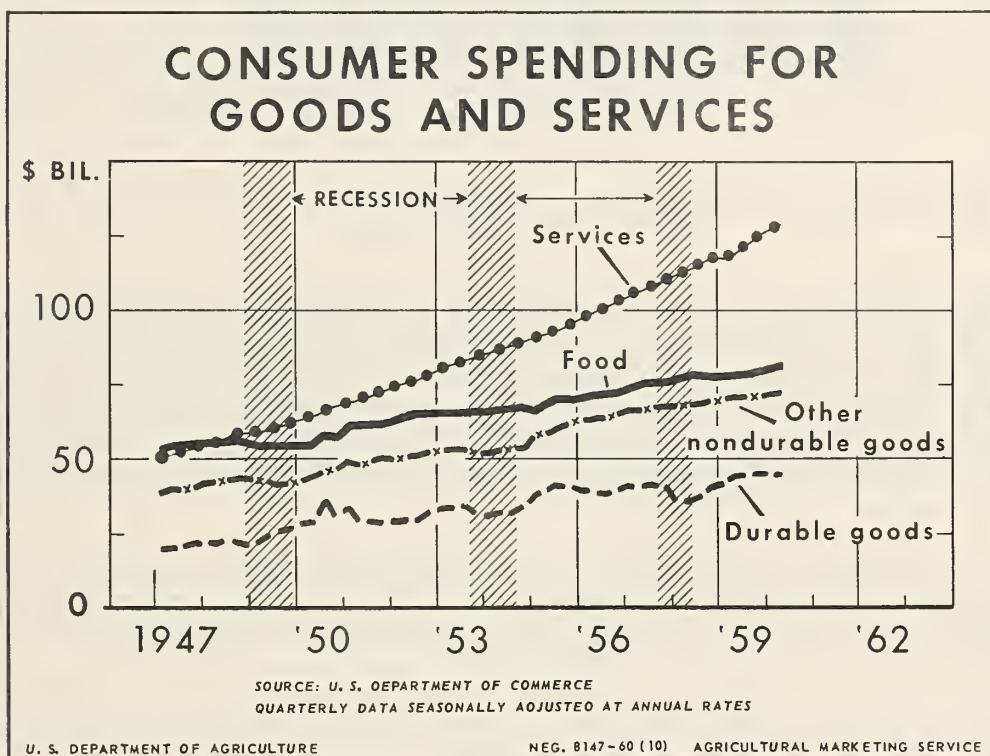


Figure 5

Agricultural Export Outlook

U. S. agricultural export volume in 1960-61 (year ending June 30, 1961) is expected to equal or exceed last year's record high (Figure 6). In value, the year's exports may approximate last year's \$4.5 billion--second highest value in history.

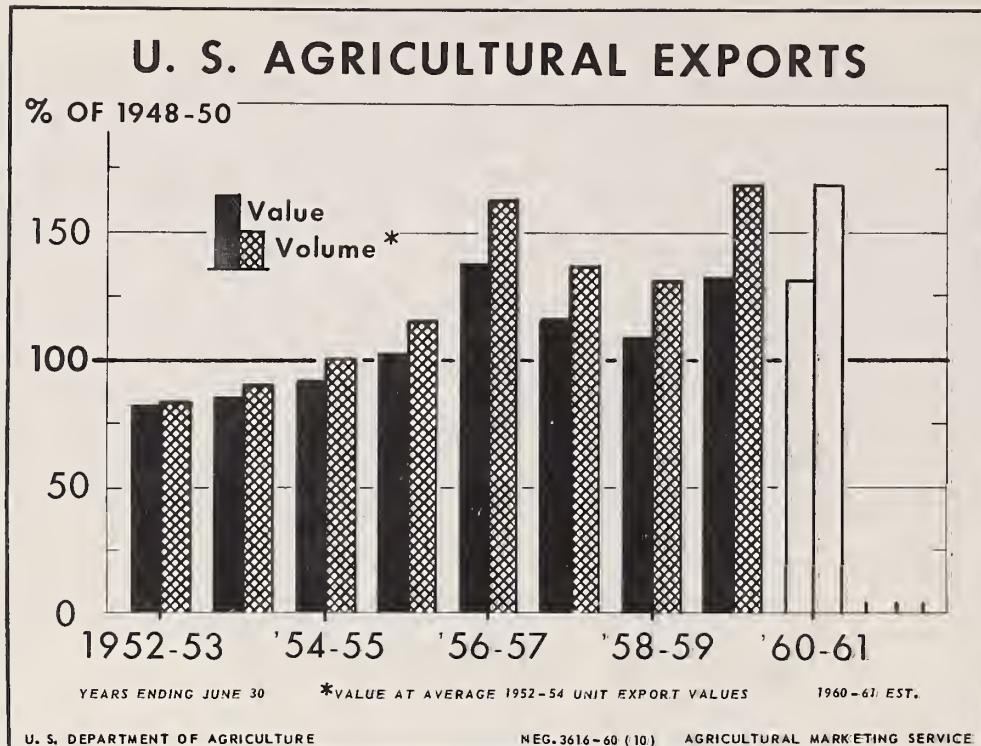


Figure 6

The foreign economic outlook favors an expansion in world agricultural trade. The step-up in economic activity, particularly in Western Europe, continues; gold and dollar holdings in most dollar-area importing countries are at all-time highs; and further progress has been made in lowering trade barriers against American farm products. "Dollar sales" will probably total about \$3.1 billion in 1960-61, while sales or shipments under Government-financed programs will very likely reach \$1.4 billion.

U. S. exports of wheat (including flour) are expected to equal, if not exceed, the 1956-57 record volume of 550 million bushels. Western Europe will probably increase its wheat buying, as adverse weather has reduced both quality and size of the wheat harvest there.

Rice exports in 1960-61 may be slightly below last year's 20.5 million bags, second largest on record. An expected decline in exports to Cuba may be offset somewhat by increased sales in other markets.

Exports of animal products in 1960-61 will probably be about 10 percent above last year's \$583 million; biggest increases are expected to be in nonfat dry milk, hides and skins, and poultry meat. Increased exportable supplies of nonfat dry milk, stepped-up U. S. cattle slaughter, and a growing foreign demand for American poultry abroad are contributing factors. Tallow shipments in 1960-61 should surpass last year's record 1.6 billion pounds, but lard exports will probably decline as a result of decreased U. S. hog slaughter and smaller demand in Cuba.

U. S. cotton exports in fiscal 1960-61 may be up slightly from 1959-60 shipments of 6.6 million bales. Continuation of the payment-in-kind program for cotton exports will make it possible for U. S. cotton to continue to move into export markets.

Tobacco exports in 1960-61 may be slightly above last year's 457 million pounds (export weight); the U. S. flue-cured crop is considerably larger than last year and above-average in quality, and prices are fairly stable.

Feed grain exports may dip slightly from the 1959-60 record of 12.8 million tons; increased production of low-quality wheat in Europe may reduce that area's feed grain requirements. Strong foreign demand for soybeans is expected to raise U. S. soybean exports to a new high in 1960-61. Protein meal exports, however, will probably be somewhat reduced.

Smaller exports of most U. S. fresh and processed fruits in 1960-61 than in 1959-60, are expected, largely as a result of reductions in U. S. supplies. But demand for fresh and processed fruits in Western European countries continues favorable, and there were some reductions in import restrictions by these countries in the summer and fall of 1960. Exports of dried beans and peas also will be smaller because of reduced supplies.

Farm Prices and Income

It now appears that realized net farm income in 1960 may equal or possibly exceed that of 1959. The improvement this year above prospects indicated earlier stems from a larger output of the price-supported wheat crop; as well as from a smaller-than-expected increase in production expenditures. Although the number of farms in 1960 has not yet been reported, it is known that the downtrend has continued in recent years. With relatively stable aggregate farm incomes, the declining number of farms would suggest some rise in income per farm.

Through September of this year, cash receipts from farm marketings totaled almost one percent above the comparable period of 1959. An increase of about 3 percent in the volume of farm marketings more than offset a 2 percent decline in average prices received by farmers. Receipts from livestock and products were down about 2 percent from January-September 1959 due mostly to reduced receipts from cattle and calves. Receipts from crops exceeded the first 9 months of 1959 by about 5 percent, due to larger marketings. Government payments in 1960 probably will total slightly larger than 1959 because of larger soil bank payments.

Prices received by farmers in October exceeded year-earlier levels for the first time in 1960. In the next few months producer prices may average above the late months of 1959 when marketings of meat animals and citrus fruits were heavy. However, with prices so far this year down 2 percent from a year earlier, prices received by farmers for 1960 as a whole are expected to average a little below 1959.

The over-all price outlook for 1961 does not point to much further change (Figure 7). Current prices for hogs reflect smaller marketings from the sharply reduced 1960 spring pig crop. Although breeding intentions point to an upturn in hog production in 1961, prices may continue above year-earlier levels at least through the first half of the year. Somewhat larger marketings of hogs are in prospect for the closing months of 1961. Marketings of cattle and calves, despite a further buildup in breeding herds, also will increase again in 1961 and prices are expected to ease further. Prices of the dairy product group are averaging above 1959 and will likely continue higher than year-earlier levels in coming months. In October, dairy product prices were either equivalent to or above recently advanced CCC paying prices. Egg prices, which in September and October were well above a year ago, probably will continue higher than year-earlier levels in the early months of next year.

In view of the foregoing supply, demand, and price-support outlook, cash receipts from farm marketings and realized net income of farm operators in 1961 are expected to change little from 1960 levels.

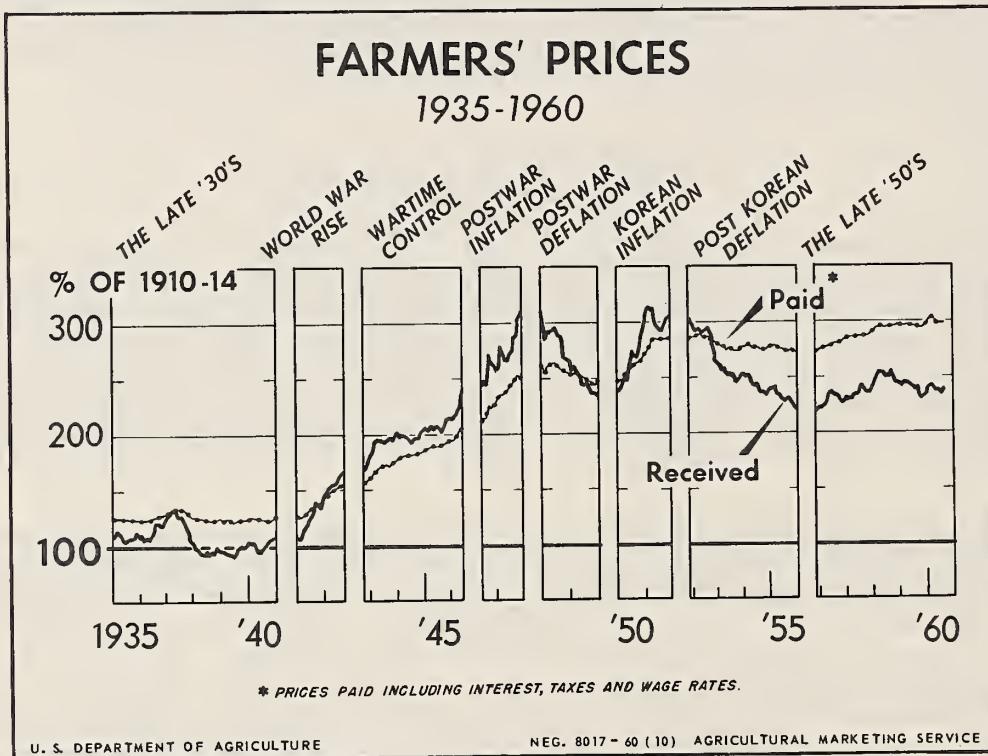


Figure 7

Farm Costs

The rise in total farm production expenses leveled off in 1960 at slightly more than \$26 billion; and little change is expected in 1961.

Production expenses for goods and services of nonfarm origin generally were about the same or slightly higher in 1960 than in 1959. Total wages paid to hired labor were about the same, but interest payments and taxes rose sharply. Expenditures for livestock and feed, obtained largely from other farmers, were lower in 1960 than in 1959.

With carryover of feed at an all-time high and production of another near record crop of both feed grains and forage this year, feed prices have averaged slightly lower than a year ago. Prices of feeder and replacement livestock averaged about 8 percent lower so far this year. In October, prices of feeder cattle averaged 10 percent lower than a year earlier. Prices paid for feeder lambs and milk cows also were lower, but prices of feeder pigs, baby chicks and turkey poult were higher than a year ago.

Because of the continuing decline in numbers of farms and the increase in average size, expenditures per farm continued to rise. Costs and returns on 8 types of farms, widely scattered throughout the country and representative of much of U. S. agriculture, indicate that production expenses per farm were generally higher in 1960 than in 1959; increases ranged from 1 to 12 percent.

Of these 8 types of farms, four of them received less net income and four received more in 1960 than in 1959. Among the four types showing reductions in net income, the cattle ranches of the intermountain region showed the greatest reduction--due to the decline in cattle prices. Among those showing increases, two types of wheat farms (from the Northern and Southern Plains) showed the greatest increases--due to good yields and relatively fixed support prices.

Farm Financial Situation

Land values in most States have been trending moderately downward since March of this year. Chiefly because of this downward drift in land values, the value of farm assets is expected to recede during 1960 to a total of about \$199 billion (Figure 8). This would be about $\$4\frac{1}{2}$ billion less than the record value of nearly \$204 billion which was reached at the beginning of this year. Small declines are expected also in the value of the livestock and of the machinery and motor vehicles on farms, and in farmers' holdings of deposits and currency.

Farm debts continue to rise and are expected to total about \$25.7 billion on January 1, 1961, as compared with \$24.3 billion on January 1, 1960.

The equities of farmers and other owners of farm assets are expected to approximate \$174 billion on January 1, 1961, 3 percent less than a year earlier. This decline results from the continued rise in farm debt while assets, chiefly farm real estate, have declined in value. However, by the end of 1960, farm debt will still be less than 13 percent of the value of farm assets. Lenders report that payments on farm debts are being maintained at a high level, although renewals have increased.

THE BALANCE SHEET OF AGRICULTURE

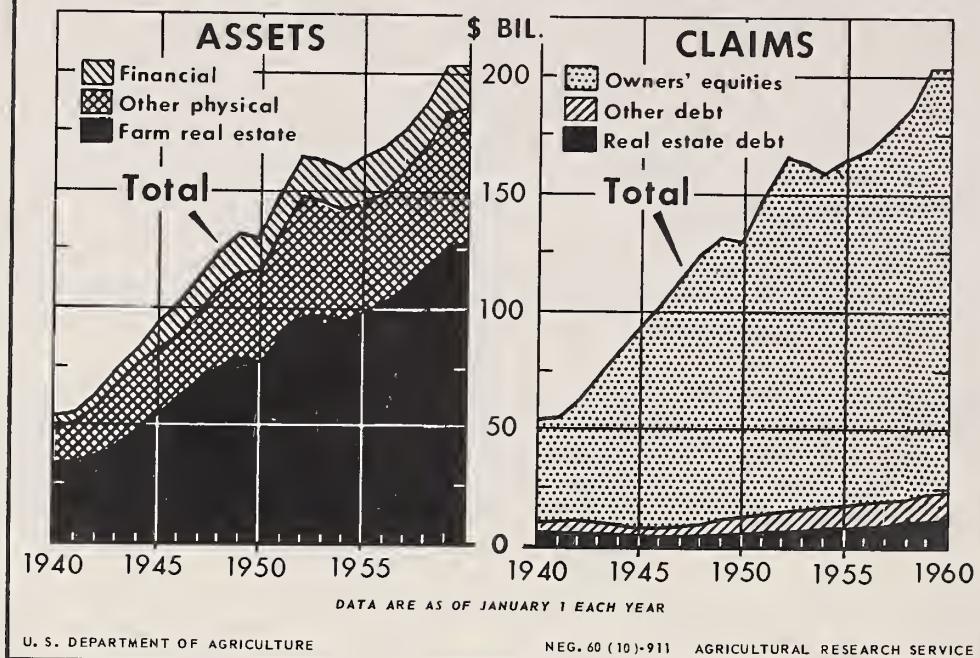


Figure 8

Compared with 1947-49

FOOD PRICES AND CONSUMER PRICE INDEX

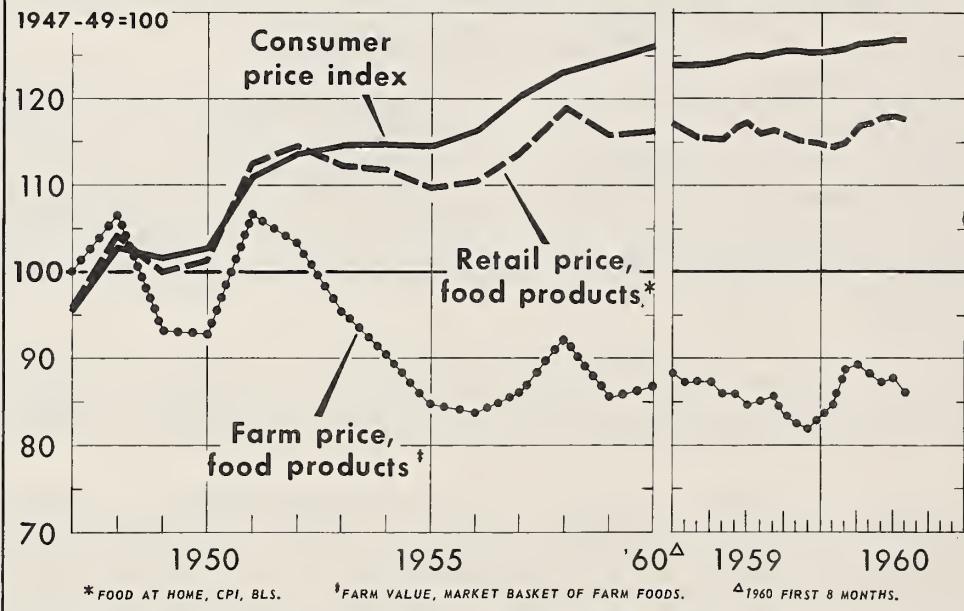


Figure 9

Despite declining yields of marketable securities in the central money markets, the interest rates paid by farmers continued to increase during the first half of 1960. Indications are that a peak in farm loan rates was reached about mid-year. The lower rates in central money markets have reduced the cost of recent issues of securities offered by the banks of the Farm Credit System, and have reduced yields on alternative investments for other farm lenders. A few of the production credit associations have already reduced their rates. Moderate reductions by some other lenders may occur before long.

Family Living

There are likely to be divergent price trends during the coming year among the various categories of goods and services which families (including farm families) buy. The largest share of the average family's expenditures is for food; indications are that retail food prices will be no higher in 1961 than in 1960 (Figure 9).

Apparel prices showed a slight advance during the past year, and are expected to remain at about.. the current level during the coming year.

Prices for new cars, as measured by the Consumer Price Index, customarily decline in the months following the introduction of the new models; the decline this year has been greater than usual. The increased popularity of compact cars has resulted in a substantial increase in production of domestic cars in the lower price ranges. Consumers have also benefited this year from substantial declines in used car prices and, in recent months, from lower prices for household appliances. Although it now appears unlikely that 1961 prices for automobiles and household appliances will differ much from current levels, purchasers of automobiles will benefit from the continued availability of lower priced models and price declines which have been recorded for other models.

Prices for services--which now represent an appreciable share of the average family's budget--have been increasing much more rapidly in recent years than have prices for commodities. From September 1959 to September 1960 prices for services increased, on the average, nearly 3 percent as compared with about 1 percent for commodities. Household operation services, gas, and electricity are 3 percent higher than a year ago; medical care services are 4 percent higher. There is no indication that this rate of price increase for services will level off in the coming year (Figure 10). Recent legislation provides that the Federal Government will match State funds devoted to assisting low-income persons over 65 meet~~s~~ their medical bills. To what extent the individual States will initiate programs to obtain such funds remains to be seen.

Many families planning to repair or modernize their homes, or build new homes, will likely find it easier to finance such work in the coming year. The Federal Housing Administration has cut the minimum downpayment required of a homebuyer who obtains an FHA-insured mortgage. The Farmers' Home Administration has relaxed its regulations so that farmers who obtain a substantial portion of their income from nonfarm sources may now be able to qualify for loans to build

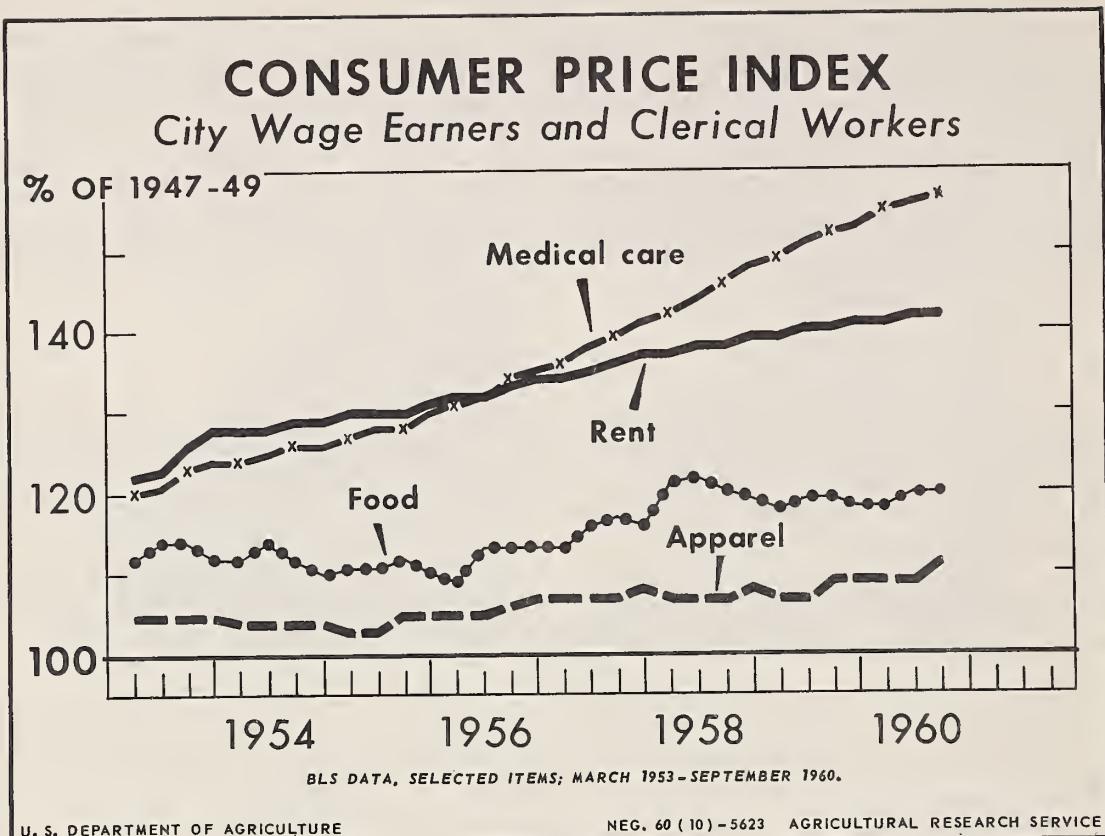


Figure 10

a new home or repair or modernize an existing home. To qualify for such a loan in previous years the applicant had to obtain a substantial portion of his income from farm sources.

Recent changes in old age, survivors and liability insurance under our social security laws will lead to the improvement of the economic position of many of our low-income families. Retired persons who supplement their social security benefits through wages may increase their incomes in 1961. Under the old law, many beneficiaries received more in total income (earnings plus benefits) if they limited their earnings to \$1,200 a year. Under the new law which becomes effective in January 1961 this is no longer true. A beneficiary who earns over \$1,200 a year will always receive more in combined earnings and benefits than if he earned \$1,200 or less. Severely disabled workers under 50 years of age also benefit by new legislation; beginning immediately. Previously, workers had to wait until reaching 50 to draw such benefits. Benefits will be raised beginning January 1961 for some children of deceased workers.

Summary

This statement of the agricultural situation and outlook has been centered on national aggregates and averages. No attempt has been made to deal in detail with individual commodities. These are covered in the commodity sessions and in the outlook issues of the separate commodity situation reports. The purpose here has been to present the general situation.

In summary, that situation is that farmers' prices and incomes in 1961 will remain at about the levels of the past 2 years. Heavy supplies will continue the dominant feature in the agricultural situation next year.

Rising livestock production is expected in 1961. Cattle numbers, now in their third year of increase, probably will rise further, and marketings will increase. Hog production, down sharply this year, appears likely to turn upward next spring. Plans of farmers in leading Corn Belt States indicate moderately increased farrowings late this year and early next. Above average hog-corn price ratio this fall also points to likelihood of an increased pig crop next spring. Marketings are likely to stay below a year earlier until after mid-1961, then rise above.

Increase in prices of poultry products this year is likely to be followed by higher production in 1961. Broiler and turkey production probably will top 1960 records. Egg output will run below a year earlier through spring ... may rise above in the fall since next spring's hatch of chicks for laying flock replacement probably will increase. Milk production, up fractionally this year, may rise further in 1961.

Record production this year assures large marketings of crops well into 1961. If weather is average or better next year, crop production will be large again.

Prospects for large marketings, and not much change in prices received or in prices paid, indicate little change in the realized net income of farm operators in 1961. This would continue the general stability of the past five years. Realized net income has been between \$11 billion and \$12 billion each year since 1954, except for 1958 when a sharp increase in farm production and a rise in prices boosted it to \$13 billion.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

AGRICULTURAL OUTLOOK IN THE 1960'S

Prepared for discussion at the 38th Annual National Agricultural Outlook Conference, Washington, D. C., at 2:45 PM, Monday, November 14, 1960.

By

Sherman E. Johnson, in cooperation
with representatives from ARS, AMS,
FAS, and FES 1/

In the 1950's, agriculture experienced major changes, and equally important changes are likely to be in store for the 1960's. Our rapidly growing population and rising consumer incomes have provided an expanding domestic market for farm products. Foreign outlets have increased also. But farm output has risen more rapidly than the total outlets for farm products. The continuing pressure of supplies on available outlets has been the chief factor in further accumulation of surplus stocks, the persistence of the cost-price squeeze on agriculture, and the less favorable per capita income position of farmers relative to that of industrial workers.

Conditions in the last decade were ripe also for marked structural changes in agriculture. Numbers of farms and of farmworkers decreased rapidly. Nonfarm inputs became increasingly important in farm production. And in many communities, the physical, social, and economic boundaries between farm and city were all but erased.

Although we are fully aware of the dimness of our "crystal ball," we have tried to visualize what lies ahead for agriculture in the 1960's. Our anticipations of the future are projections rather than forecasts, because the changes we outline are based on specific assumptions with respect to prices and costs, farm programs, advances in technology, and other factors.

1/ This statement is the product of interagency effort in bringing pertinent data and analyses to bear on agricultural prospects in the 1960's. Because so many persons have supplied materials for the basic projections, it is not feasible to name all the participants. Also, it seemed desirable to include some interpretations of these projections that should be attributed only to the leader of this discussion.

Our analysis is based on the following general assumptions:

1. Continuation of about the same economic conditions that prevailed in the last half of the 1950's, including about the same rate of economic growth.

2. Continuation of the major farm programs now in operation, including both domestic and export programs designed to support prices and to provide special outlets for farm products.

3. Adoption by farmers of known improvements in technology at about the same rate as in recent years, with consequent increases in production per acre and per animal.

4. Average weather.

We realize that the actual conditions under which farmers will operate in the 1960's may differ from the framework we have outlined, but we believe that projections based on this framework will bring out problems that will need to be dealt with by farmers themselves, by farm marketing and service agencies, and by those responsible for development of farm programs, foreign aid, and other public activities.

In the sections that follow, we have centered generally on 1965 as the target date for our projections. We have tried to state clearly any modifications of the framework outlined above or any additional assumptions that seemed necessary in some sections of our analysis.

Prospective Domestic Markets

Even with further increases in per capita purchasing power of domestic consumers, expansion of the domestic market for farm products will depend primarily on the growth of population. The domestic market for farm products absorbed 80 to 85 percent of our farm output during 1957-59. Export outlets took about 12 percent, and stock accumulations averaged nearly 5 percent.

By 1965, the population of the United States will be about 10 percent larger than in 1959. The composition of this larger population will differ from today's makeup -- more heavy-eating teenagers but also more people in the older age groups. Consequently, the effect of the changing age-pyramid may be largely offsetting in relation to average per capita food consumption.

Population growth, however, is not the sole determinant of the prospective market for farm products. Changes associated with rising consumer incomes and an improved diet increase the quantity of farm resources needed to provide about the same number of pounds of food per person. Changes in relative prices of some foods also are major forces influencing the kinds of food used by consumers. Other factors, such as nutritional and medical developments, food fads, and big changes in supply, may modify the pattern of food consumption.

During the 1950's, average per capita disposable income, in terms of dollars of constant purchasing power, increased by about 23 percent. If we maintain this rate, per capita disposable income in 1965 would average about 10 to 15 percent above our 1959 level. The effect of rising consumer incomes on food consumption per person is relatively small, however, and seems to be diminishing as incomes rise.

If we look at food consumption over the last 25 years, we see that the total number of pounds of food consumed per person has remained about constant. But, along with some nutritional improvement, there has been a substantial upgrading in the eating quality of the foods in the average consumer diet. Considerable shifts among the several foods have occurred. We now eat more meat, more poultry and eggs, and more processed fruits and vegetables than we did 25 years ago (fig. 1). However, we now consume less cereals, fresh fruits, and fresh vegetables per person than we consumed at that time. Our consumption of fats and oils (including butter) and sugar showed a decline during World War II, but for the last several years, per capita consumption of these foods has held constant at the same level as prevailed during the prewar years 1935-39.

Over the last 25 years, the increase of more than 100 pounds in the average consumption per person of livestock and livestock products has about equaled the decline in consumption of cereal products and potatoes. This shift to more costly food represents an economic upgrading of our diets, and some nutritional gain. Enrichment of grain products has also contributed much to dietary improvement.

These shifts and trends in food consumption have been influenced by the high levels of income achieved in the postwar period, by the search for better nutrition, by innovations in production and marketing, and by the price factor, particularly in the case of such commodities as butter, margarine, broilers, and citrus fruits.

With incomes continuing at relatively high levels, consumers can be expected to buy the kinds and amounts of foods they like and can afford. Although nutrition research may point the way to some modifications in diets that might contribute to better health or to longevity, it is unlikely that eating habits will change enough in the next 5 years to affect demand for food to any great extent.

In the last 25 years, changes occurred also in the consumption of nonfood agricultural products. Cotton consumption per person is now about at the average level of 1935-39, but it showed a rapid rise in the early 1940's, then declined steadily to prewar levels. However, the downtrend in cotton consumption per person seems to have come to a halt. With new technology, particularly the blending with other fibers, it might well show some increase in the years ahead. Technological progress in the tobacco industry, however, has enabled manufacturers to make substantially more products from a pound of leaf and has slowed the increase in requirements at the farm level.

We have projected an increase in total domestic use of agricultural products of about 11 percent from 1959 to 1965 (table 1). Population growth accounts for most of this gain.

Food use of crops by 1965 would increase less than the 10-percent rise in population from the 1959 level, chiefly because of a continued decline in the per capita use of cereals and potatoes combined. The rise in total domestic use of fruits and vegetables (particularly the processed component) would exceed population growth. These projections reflect the past trends discussed above. American consumers have been shifting their eating pattern away from potatoes, bread, and other cereal products, and this trend may continue. Probably, however, we should expect a tapering off, particularly since some nutritionists are now suggesting the advantage of a moderate return to bread and potatoes in place of some of the fats and sweets.

A further rise of from 10 to 15 percent in the total food use of live-stock products can be expected from 1959 to 1965. Largest gains are indicated for meat animals and poultry. Nonfood uses of crops for feed and seed (about half the total crop output), cotton, tobacco, and industrial uses of oils and grains are expected to rise also.

Prospective Export Outlets

The volume of U. S. agricultural exports by 1965 is projected at about 20 percent above 1959 (table 2 and fig. 2). Foreign agricultural production is expected to increase somewhat faster than population. However, the expected increase in world population and in foreign per capita consumption of farm products will be such that the deficit in food and fiber outside the United States will be larger by the end of the decade than it now is.

In the projections shown in table 2, we assume that present arrangements, or a program with similar effects, will be continued to maintain commercial exports at high levels. We also assume that special Government export programs under some type of "food for peace" effort will be in effect throughout the 1960's for wheat, rice, feed grains, cotton, fats and oils, and nonfat dry milk. It is believed that economic development throughout the less developed areas will advance sufficiently to increase commercial demand in line with the indicated trend.

Exports of wheat and flour in 1965, equivalent to 475 million bushels, are expected to be somewhat greater than in 1959. Indications are that production in other exporting countries will increase slightly above the recent high levels through the 1960's. Production in the Soviet Union is expected to increase, and the USSR might export more wheat to the free world by 1965 than during the latter years of the 1950's.

World consumption of wheat products should continue to increase, though at a slower rate than during the last 10 years. Consumption is likely to remain relatively stable in the more developed countries of North America and Europe but will continue to increase in the less developed countries.

Table 1.- Domestic utilization of farm products, 1925-29, 1935-39, 1959,
and projections for 1965 1/

Item	(Indexes, 1947-49 = 100)					Change, 1959 to 1965
	1925-29	1935-39	1959	Projected 1965		
Utilization of farm products	:					
Livestock products:	:					
Food, domestic	72	75	124	139	12	
Meat animals	73	75	123	141	15	
Poultry	59	64	185	211	14	
Nonfood, domestic <u>2/</u>	102	103	81	90	11	
Crops:	:					
Food, domestic	80	88	105	109	4	
Cereals, potatoes, dry beans and peas	104	99	88	90	2	
Fruits, vegetables, and tree nuts	74	84	107	125	17	
Nonfood, domestic (exclud- ing feed and seed)	69	78	98	127	30	
Feed and seed <u>3/</u>	88	80	125	134	7	
Total domestic use	74	78	116	129	11	
Food	74	79	118	131	11	
Nonfood	69	76	113	125	11	

1/ From supply-utilization index. Total domestic utilization from all sources, (including military takings): Production, stocks, and imports.

2/ Mainly milk fed to animals, wool, hides, hatching eggs, and inedible grease and tallow.

3/ 1965 projection assumes a concentrate feeding rate of 0.87 ton per animal unit. This is lower than the rate of 0.96 ton estimated for 1959, but the 1954-58 average was 0.83 ton.

Table 2.- Export outlets for United States farm products, 1955-59, 1959,
and projections for 1965 1/

Item	Unit	1955-59 <u>2/</u>	1959 <u>2/</u>	Projected 1965	Change, 1959 to 1965 <u>Percent</u>
Wheat, including flour ...:	Mil. bu.	418	443	475	7
Commercial exports:	do.	131	123		
Special Govt. programs.::	do.	287	320		
Rice:	1,000 MT	695	698	750	7
Commercial exports:	do.	264	316		
Special Govt. programs.::	do.	431	382		
Feed grains:	1,000 MT	8,043	11,261	11,750	4
Commercial exports:	do.	5,010	8,703		
Special Govt. programs.::	do.	3,033	2,558		
Cotton <u>3/</u>:	1,000 bales	4,468	3,678	6,500	77
Commercial exports:	do.	2,560	2,229		
Special Govt. programs.::	do.	1,908	1,449		
Fats and oils:	1,000 MT	2,020	2,242	2,900	29
Commercial exports:	do.	1,405	1,769		
Special Govt. programs.::	do.	615	473		
Total agricultural exports <u>4/</u>:	Bil. dol.	3.9	3.9	4.7	21

1/ Commercial exports involve sales for dollar exchange, but export subsidies are paid on some major products, notably wheat and cotton.

2/ Calendar years.

3/ Cotton exports were relatively low in 1959.

4/ Measured in fiscal year 1960 dollars.

Wheat surplus problems are likely to continue to plague exporting countries during the next decade. Therefore, unless we undertake a major revision of our domestic pricing programs, subsidies are likely to be required even on commercial exports to bridge the gap between the domestic and the lower world prices.

Rice exports in 1965, projected at about 750,000 metric tons, are expected to rise above the current level. But again subsidies will be required on exports unless the domestic pricing program is revised.

World trends in economic growth, population increase, and demand for meats are expected to continue, which means that the United States can look forward to maintaining a strong position in an expanding market for feed grains during the next decade. Price competition in the 1960's, however, may force either lower domestic prices or moderate export subsidies, at least from time to time.

United States exports of cotton may average around 6.5 million bales during the next decade if our cotton continues to be priced for export at competitive levels. This favorable long-term outlook depends upon competitive pricing, as well as continuation of the steady uptrend in world cotton consumption that has prevailed since 1945. During the last 4 years, world consumption of cotton has exceeded world production, and this has enabled the United States to reduce carryover stocks to half the 14.5-million-bale total reported for July 31, 1956.

Over 7.0 million bales of cotton were exported in 1959-60 when foreign consumption of United States cotton was abnormally high. A continued uptrend in foreign consumption would permit increases in both foreign production and continued large exports from this country.

Production of cotton outside the United States leveled off following the sharp drop in world prices in 1955, and later adjustments of our export prices to the world level. Special Government programs for cotton exports are likely to be needed in the next decade but in slightly diminishing volume as they are replaced by increasing dollar trade.

Total exports of fats, oils, and the oil equivalent of oilseeds in 1965 may total 2.9 million metric tons. The world seems likely to turn more to the United States during the 1960's for supplies of oilseeds and oilseed products. Other exporting areas are not likely to keep pace with expanding world demand. It is expected that the Far East (excluding mainland China) will drop out of the picture entirely as a net exporter during the late sixties. Only Africa is likely to increase its exportable supplies, and the increase from this source may be rather modest.

Farm Production Prospects

Despite current record levels, the upward trend in total farm output is expected to continue throughout the next 5 years. Farm output in 1965 is projected at a level from 6 to 10 percent above the near-record outturn of 1959, and 33 to 38 percent greater than in 1950 (fig. 3). Aggregate production of livestock and livestock products in 1965 is projected at nearly 10 percent above 1959. A more modest increase of 4 to 9 percent is projected for total crop production.

These projections of aggregate production by the mid-1960's are based on certain specific assumptions. An examination of these assumptions is in order if we are to appraise the range of our production possibilities.

Aggregate production of livestock and livestock products was projected to increase sufficiently from 1959 to 1965 to meet prospective utilization outlets. We assume that any "surplus" production of feed grains would show up as net addition to stocks. This is consistent with our general assumption of continuation of the price-support programs of recent years. If part, or all, of any surplus production of grains were fed, both livestock production and total farm output would rise more than we have projected, and prices of livestock would decline.

Two levels of crop production were projected. These levels reflect two combinations of projected acreages of crops and crop yields. Crop acreages and the land-use pattern existing in 1959 were assumed in projecting a 6-percent increase in output in 1965. This, in effect, assumes also a continuation of about 22 million acres in the Conservation Reserve. Nearly 29 million acres were in the Conservation Reserve in 1960, but under existing programs, the acreage may drop to 13 million acres by 1965. Consequently, with 16 million acres released from the Conservation Reserve, our acreage of harvested crops in 1965 could be increased by as much as 10 million acres above the 1959 level. This larger acreage of cropland was assumed in the higher level of production possibilities.

The most important element in future crop production is the prospective level of yields. The data in table 3 and figure 4 show our range of projections of crop yields in relation to recent achievements. The yield projections assume "average" weather in 1965. The lower level of the shaded band of yield projections on the chart is based on estimates by Agricultural Research Service scientists of the yields that might be expected by 1965 from further application of known improvements.

Average yields of many crops in 1958-60 equaled or exceeded the yields projected as attainable by 1965. Favorable growing conditions contributed to high crop yields in 1958 and perhaps also in 1959. But there is some evidence that farmers are adopting known improvements at a more rapid rate than was projected.

Table 3.- Crop yields per harvested acre, 1954-56, 1958-60,
and projections for 1965

Crop	Unit	1954-56	1958	1959	1960	1/ 1958-60	1965	Projected	
								2/ 1965	3/ 1965
Corn	Bushel	41.5	51.8	51.5	50.9	51.4	51	3/ 55	
Sorghum grain	do.	20.4	36.6	37.2	39.4	37.7	32	4/ 37	
Oats	do.	35.9	44.5	37.7	43.0	41.7	39		
Barley	do.	28.3	31.8	27.9	30.0	29.9	32		
Soybeans	do.	20.6	24.3	24.0	23.8	24.0	24		
Hay	Ton	1.48	1.67	1.62	1.71	1.67	1.70		
Wheat	Bushel	19.4	27.4	21.3	25.8	24.8	23		
Cotton	Pound	389	466	462	450	459	480		
		:	:	:	:	:	:		

1/ Indications for 1960 based on October 1960 Crop Production report of AMS.

2/ Projections for 1965 reflect yields which Agricultural Research Service scientists expect to result from further application of known technology.

3/ Yield if the 1940-59 yield trend continues.

4/ The approximate 1958-60 yield.

After consideration of the various factors involved, including the more recent yield experience, some of our yield projections seem conservative. This is especially true of yields of corn and sorghum grain. In order to explore the possible range of production by 1965, alternative projections of yields were made for these two crops. Corn yields were projected to 1965 in line with the 1940-59 trend. Yields of sorghum grain in 1965 were projected to remain at about the 1958-60 level. This assumes that further increases in use of hybrid seed will compensate for the effects of favorable weather on yields of sorghum grain during 1958-60. These adjusted yields for corn and sorghum grain were used in projecting the higher level of production possibilities in 1965. They were also used in calculating the higher level of the shaded band of yield projections in figure 4. An even wider range of yield projections is indicated if 1937-59 and 1950-59 trends are extrapolated to 1965. If the 1950-59 trend were to continue, crop production per acre in 1965 would be 39 percent above 1947-49, whereas continuation of 1937-59 trends would result in an increase of only 24 percent.

The importance of the assumption of average weather in making our projections should be emphasized. Weather has caused wide variations in annual aggregate farm production in the past and could have significant impacts in the mid-1960's. For example, because of variations in weather, total farm output dropped by 14 percent from 1933 to 1934, and more recently, by 3 percent from 1946 to 1947.

If the 1937-59 trend continues, farm output 5 years hence would be only 6 percent greater than the 1959 level. We conclude, however, that our present productive capacity is such that farm output in 1965 is likely to exceed the level indicated by this long-term trend. Under the conditions assumed, it is more likely to follow the 1950-59 trend and even to exceed our higher level projection.

Prospective Production-Outlet Balance

Projections of farm output and of markets for farm products at home and abroad are subject to wide margins of error. These errors can be compounded when we attempt to strike a production-outlet balance. Because a small imbalance between market supply and demand for farm products has significant price and income effects, it is very difficult to interpret the potential economic effects of our projections of production in relation to outlets.

A conservative projection of trends in crop yields and farm output, combined with a high rate of concentrate feeding per animal unit of food livestock, would result in an approximate annual balance between production and outlets. We must bear in mind, however, that the projected outlets include large subsidies on commercial exports, as well as special Government export programs, and that no provision has been made for liquidation of surplus stocks. Present stocks of feed grains and wheat might be reduced if we should encounter drought as severe as that of the 1930's. But our projections assume average weather.

If we examine separately the prospects for cotton, wheat, feed grains, and soybeans--crops which, together with food livestock, dominate our farm economy--we should have a better basis for appraising the prospective overall balance between production and outlets.

Prospective production of cotton in 1965 may about balance projected outlets for that year, if commercial exports are priced competitively in world markets and if special export programs are continued. With exports at 6.5 million bales, total utilization of cotton 5 years hence may approach 16.5 million bales. As yield is projected to average a bale per acre harvested, we may need to harvest more than 16 million acres of cotton in 1965, or 1.5 million acres more than in 1959.

Prospects for wheat are not as bright as those for cotton. Combined domestic and foreign outlets in 1965 are projected at 1,100 million bushels, or somewhat above the 1959 level of total utilization. Yield of wheat per acre harvested is projected at 23 bushels for 1965. This means that with average weather, production would balance with outlets if 5 million fewer acres were harvested in 1965 than in 1959, when 53 million acres were harvested. If the yield per acre should average above 23 bushels, the gap might be as high as 7 million acres.

Acreage needed for producing feed grains in 1965 is likely to range from 5 to 15 million acres fewer than were harvested in 1959. This range of surplus capacity depends chiefly upon the yield levels and the feeding rates assumed. Domestic and foreign outlets for feed grains, other than needs for livestock feed in the United States, are not expected to be much above the 1959 level.

With yields projected by ARS scientists and 1959 acreages and cropping pattern, production of feed grains in 1965 would total 164 million tons, or slightly less than in 1959. If 1959 acreages and adjusted yields for corn and sorghum grain are assumed, the projected outturn in 1965 would be 176 million tons.

The annual estimates of concentrates fed per grain-consuming animal unit that follow bring out the sharp rise that has occurred in recent years:

Year beginning Oct. 1	Concentrates fed	Tons	Year beginning Oct. 1	Concentrates fed	Tons
1940	0.69		1950		0.78
1941 .....	.71		1951 .....		.79
1942 .....	.74		1952 .....		.77
1943 .....	.72		1953 .....		.80
1944 .....	.75		1954 .....		.78
1945 .....	.79		1955 .....		.80
1946 .....	.77		1956 .....		.81
1947 .....	.72		1957 .....		.86
1948 .....	.76		1958 .....		.90
1949 .....	.77		1959 .....		.96

The rate that may prevail in 1965 is uncertain, but it is likely to be less than the high rate of 0.96 ton per animal unit in 1959. If a feeding rate of 0.87 ton occurs, about 135 million tons of feed grains would be needed for livestock feed in 1965. This compares with 126 million tons fed in calendar year 1959. At the 1954-58 average feeding rate of 0.83 ton, about 128 million tons of feed grains would be needed for livestock production 5 years hence.

Our projection of 5 to 15 million "surplus" acres of feed grains in 1965 is based on these two feeding rates and the two levels of yields. A highly unlikely combination of a feeding rate as high as that of 1959 and the lower level of feed grain yields would call for 5 to 10 million more acres of feed grains than were harvested in 1959.

Domestic and foreign outlets for soybeans are projected at about 650 million bushels in 1965. This assumes that current Government export programs will continue and that soybeans will maintain their current share in the expanded export market for fats and oils. The yield of soybeans per acre harvested is projected at 24 bushels for 1965, the same as in 1959. With this yield, we would need to harvest nearly 27 million acres of soybeans in 1965, or about 4 million more than in 1959. If the yield per acre should average above 24 bushels, the increase in acreage that would be needed to produce the projected outturn might be about 3 million acres.

Changes in market outlets and in production of crops other than cotton, wheat, feed grains, and soybeans also are in prospect by the mid-1960's. Expanded production of livestock, for example, will call for an increase in roughage outturn. However, the ARS projection of further advances in yields of hay and pasture is such that these needs can be met without any significant increases in acreages of these crops. Possibilities for higher yields of other crops also point to the conclusion that little change in aggregate acreage may be needed to meet projected market outlets for these crops by 1965.

Considering our market outlets and productive capacity as a whole, we conclude that by the mid-1960's, our surplus capacity may be about the equivalent of 15 to 25 million acres of cropland. This estimate assumes that under the present program, as much as 10 million acres of cropland may be released for crop use from the Conservation Reserve during the next 5 years.

Our appraisal of total surplus capacity rests heavily on our assumptions and the combination of various degrees of optimism and conservatism inherent in our various projections. In our projections of crop yields and of production, we have assumed continuation of present programs. Foreign outlets for farm products depend upon continuation of special export programs and competitive pricing of commercial exports for many of our crops. The projections of the domestic market for farm commodities rest on the important assumption of continued economic growth of a high-employment economy. A significant departure from the assumption of "average weather" in the mid-1960's would change greatly our projections of total farm output for those years. Finally, the record of recent years indicates that we have been inclined to underestimate rather than to overestimate future increases in farm output.

Prospective Changes in the Structure of Agriculture

Problems of adjustment in use of farm resources, as well as in volume and composition of production, are characteristic of agriculture in an advanced industrial economy such as the United States. Several interrelated phases of an advanced industrial economy should be recognized if we are to understand our current and emerging farm problems. The most important of these phases are summarized as follows:

1. Relatively low price and income elasticity of demand for agricultural products at the "farm gate." Therefore, relatively small increases in supply result in proportionately larger declines in prices received by farmers, unless halted by price-support programs. This contrasts with relatively greater price and income elasticity of demand for most nonfarm goods and services.
2. Adoption of new technology usually results in lower unit costs of production for individual farmers but in greater output per farm and in the aggregate; hence a tendency of farm output to press on available market outlets.
3. A persistent tendency for returns to resources in farming, especially labor, to remain lower than returns to comparable resources used in the non-agricultural economy.
4. As a result of the differential in labor earnings, a strong attraction for labor resources to move from the agricultural to the nonagricultural sector of the economy when nonfarm employment opportunities are available.
5. The agricultural and nonagricultural sectors of the economy become ever more interdependent as farmers buy relatively more goods and services for both farm production and home use and produce more products for sale.

The interrelated changes in number and size of farms and in farm employment, the changing input mix in farm production, and the further integration of the farm and nonfarm sectors of our economy often are grouped under the title "the changing structure of agriculture." Technical and economic forces have combined to bring about almost unbelievable changes in the structure of agriculture during the last two decades. Further startling changes are in prospect by the mid-1960's. Our present task is to gauge the direction and magnitude of some of these changes. Again, let us warn that the accuracy of our projections depends heavily upon the underlying assumptions.

Farms and Farmworkers

Based on partial returns from the 1959 Census of Agriculture, we conclude that more complete returns will show about 3.7 million census farms in 1959. This estimate is based on a more restrictive definition of a farm than was used in previous censuses. It also excludes an undetermined number of farms with all of their land in the Conservation Reserve. If we use the 1959 census definition of a farm in both periods, the number of farms decreased in the last 5 years by about the same number as from 1949 to 1954.

The marked change in the size distribution of farms during the last decade was as significant as the sharp drop in total number of farms. Partial returns indicate that the net decrease in total number of farms from 1949 to 1959 was accounted for by the drop in farms selling less than \$2,500 worth of farm products. The number of farms with \$10,000 or more of products sold increased substantially during the decade, and the number with sales ranging from \$2,500 to \$9,999 decreased moderately.

Further changes in farm numbers and size distribution are in prospect by the mid-1960's. If trends of the last decade and the conditions underlying them continue, farm numbers will be reduced another 0.4 million by 1965. Moreover, it is expected that this reduction will come about through a further drop in farms with less than \$2,500 of sales. On the other hand, the number of farms with \$10,000 or more of sales is likely to increase during the next 5 years. As will be seen later, these projected changes in number and sizes of farms are consistent with and closely related to our projected changes in farm employment, resource productivity, and use of nonfarm inputs.

Perhaps the most noteworthy change in the structure of agriculture during the last two decades was the sharp drop in labor used on farms. Average annual employment on farms, as measured by the AMS series, totaled 11.0 million in 1940. By 1959, employment was reduced to 7.4 million -- a decrease of 3.6 million, or one-third, from the 1940 level.

The rate of decline in employment during the last decade and a half is expected to continue through the mid-1960's. If this trend prevails, farm employment in 1965 would total about 6.3 million. This is a projected decrease of 15 percent in 6 years.

The outstanding contribution to economic growth and development of our total economy of past and prospective gains in efficiency of use of farm labor is effectively summarized when we compare farm employment with the total labor force of the United States. In 1959, farmworkers made up about 8 percent of our total labor force as estimated by the U. S. Department of Labor. If our projections and those of the U. S. Department of Labor materialize, this proportion would be reduced to less than 6.5 percent by 1965.

The projection of a further sharp drop in farm employment is consistent with past and anticipated future changes in productivity of farm labor and in number of farms. Output per man-hour of farm labor in 1959 was nearly three times that of 1940. The increase in output per man-hour of farm labor was especially rapid during the last decade.

In the last two decades, gains in output per man-hour of farm labor were so substantial that an increase in farm output of more than 50 percent was achieved with a reduction of nearly 50 percent in man-hours used. Labor inputs dropped from 20.5 billion man-hours in 1940 to 11.0 billion in 1959 (fig. 5).

If the trend in labor productivity over the last decade continues, output per man-hour in 1965 would rise to 2-1/2 times the 1947-49 level and to 30 percent above 1959. This would mean that our projected output in 1965 could be attained with 9.0 billion hours of farm labor -- about 18 percent less than in 1959.

Past trends indicate that other changes in the composition and use of labor on farms may be in prospect. The rate of decline in number of hours worked per week by all farmworkers that occurred in the last decade is expected to continue through the mid-1960's. In anticipation of further declines in number of hours worked per week and per year, farm employment as shown in figure 5 was projected to decrease from 1959 to 1965 by a smaller proportion than man-hour inputs.

During the last decade, the decline in number of family workers (farm operators and unpaid family workers) was greater than the decrease in number of hired workers. Hired workers made up 26 percent of average annual farm employment in 1959, compared with 23 percent in 1949. If past trends continue, the proportion of hired workers in our farm labor force will rise to 28 percent by 1965 (fig. 6). Trends in the relative importance of hired workers have varied markedly by regions. Since 1945, hired workers have maintained a fairly constant relation to family workers in the North Central States where most of the work is done by the operator and members of his family. In contrast, the relative importance of hired workers in the South rose markedly during the same period. There was little change in the number of hired workers, but there was a sharp reduction in number of family workers.

Regional shifts in farm employment also contributed to the upward trend in the relative importance of hired workers. In the South, the total number of farmworkers dropped by 33 percent from 1945 to 1959. This contrasts with a decline of only 11 percent in the Pacific States, where currently half of the total workers are hired compared with less than 30 percent in the South, and 15 percent in the North Central States.

In recent years, migratory workers, including foreign nationals brought into the United States under international agreements, have accounted for about 5 percent of total farm employment and 20 percent of hired employment. Domestic migrants have slightly outnumbered foreign migrants employed in agriculture. Employment of migratory workers, both foreign nationals and domestic migrants, is expected to decline in the next few years.

Nonfarm Inputs and Capital Needs

Farmers are becoming increasingly dependent on the nonfarm economy for goods and services used in farm production. Greater use of purchased inputs such as chemical fertilizers, pesticides, and mechanical power and machinery has contributed greatly to our upsurge in farm output and to the increase in sizes of farms.

Individual farmers who already have large investments in farming find that even at prevailing cost-price ratios they can increase their net incomes by increasing their use of some of these purchased inputs. But when many farmers react in this way, the larger total output results in further price declines. Greater use of fertilizer, improved seeds, pesticides, and so on, has been a means of lowering unit costs of production on going farms. This economic force, as well as the rising relative price of labor, has fostered a rapid substitution of nonfarm inputs and capital for both farm labor and farmland.

Measured in constant dollars, the inputs purchased by farmers from the nonfarm economy rose 44 percent between 1940 and 1959. During the same period, use of nonpurchased inputs--operator and family labor and operator-owned real estate and other capital inputs--decreased 26 percent (fig. 7). The rise in volume of purchased inputs was the net result of substantial increases in farmers' use of fertilizer, machinery, petroleum products, formula feeds, and so on, which were partly offset by a sharp drop in employment of hired labor. The decrease in nonpurchased inputs reflects chiefly the large reduction in operator and family labor, because farmer-owned real estate and other capital assets have increased in total.

With greater specialization and further advances in farm technology, more production goods and services will be bought by farmers. Gauged by recent trends, purchased inputs of feeds, pesticides, and petroleum products are expected to rise most--perhaps as much as 20 percent from 1959 to the mid-1960's. Lesser rises of 10 to 15 percent are in prospect for chemical fertilizer, machinery, livestock purchases, and miscellaneous supplies and services. Hired labor inputs, however, are likely to decline substantially, and inputs of seed and motor vehicles are expected to change only moderately from 1959 to 1965. Purchased inputs in total are projected to rise by about 10 percent from 1959 to the mid-1960's.

Nonpurchased inputs may drop from 10 to 15 percent from 1959 to 1965 if recent trends in the substitution of capital and purchased inputs for operator and family labor and farmland continue. Inputs of farm real estate are expected to change little, and other productive assets owned by farmers may rise moderately. A further sharp drop in inputs of operator and family labor is likely if our general assumptions hold and our other projections materialize.

The total quantity of inputs committed to production by farmers (purchased plus nonpurchased inputs) probably will change little by the mid-1960's. The decline in labor inputs is expected to about offset the projected increases in nonfarm inputs. This is in line with the trend during the last two decades; it means that further substantial increases in overall resource productivity in agriculture are in prospect.

Measured in constant dollars of 1959, a moderate increase in the volume of production assets used in farming is projected for the mid-1960's. As noted earlier, little change is anticipated in volume of real estate assets, which totaled \$111 billion as of January 1, 1959. However, the constant-dollar volume of other production assets--inventories of livestock, crops for feed, machinery, and operating capital--may increase by nearly 10 percent from 1959 to 1965. Total value of these assets at the beginning of 1959 was \$44 billion. These prospective changes in total production assets are consistent with recent trends and our other basic projections and assumptions.

When estimates of production assets in 1959 dollars are related to projections of numbers of farms and of farmworkers, prospective changes are much more striking. Values of all production assets per farm (under the new census definition) probably averaged nearly \$42,000 in 1959. The value of real estate made up about \$30,000, and other production assets about \$12,000 of this per farm total.

If our projections of assets and of farm numbers materialize, the total volume of assets per farm would rise 15 percent from 1959 to the mid-1960's. Total assets per farm would increase in value to about \$48,000 (1959 dollars) by 1965. Real estate would account for about \$33,000, and other production assets nearly \$15,000. Projected changes in assets per farm are due in the main to an anticipated reduction in number of farms, because prospective increases in aggregate production assets are moderate.

Our projections also imply an increase of about 20 percent in volume of production assets per farmworker between 1959 and the mid-1960's. Volume of total assets per farmworker was \$21,000 in 1959 and is projected to rise to \$25,000 by 1965. Production assets other than real estate amounted to about \$6,000 per worker in 1959, and are projected to increase to more than \$7,500 by 1965. Anticipated changes would occur chiefly as a result of the projected sharp decline in farm employment.

Economic Implications for Farm People

If the framework we used in making our projections should prevail, and if the projected changes in farm production, in outlets for farm products, and in the structure of agriculture should materialize by 1965, farm people would continue to face many problems. In what follows, we give our appraisal of the important economic implications of the projections we have made. We recognize the personal judgment involved in such an appraisal, but if it points out the directions of change that may be anticipated, it should be helpful in developing ameliorative programs.

Unless more effective programs are developed, farmers will be faced with a continuing income squeeze in the next 5 years. With average weather, annual farm production will continue to exceed available outlets at 1959 prices, which would mean that stocks of surplus products would become even larger.

Our projections for 1965 point to the possibility of some reduction in the annual surpluses of recent years, but we should remember the large stocks now on hand. And we should bear in mind that the projection for exports assumes a 20-percent increase. Much of this increase will necessarily continue to be heavily subsidized. To achieve so large an increase also may require development of more effective "food-for-peace programs" than are now in effect.

We should be aware also of the large unused capacity of land and labor, which means that output could and would expand a great deal more if farm income prospects were to improve. Experience indicates that production is responsive to income increases and unresponsive to decreases. This means that income-improvement programs will need to be accompanied by safeguards against unwarranted increases in output.

Our assumptions of current programs of price support and export subsidy imply that in the mid-1960's, prices of farm products would remain at about the level of 1959. But farmers are likely to pay higher prices for the goods and services they use in production. This portends a continuing cost-price squeeze unless effective steps are taken to relieve it. A further increase in farm wage rates virtually follows from our assumption of continued growth of a high-employment general economy. On the other hand, continued surplus production of farm products would hold down the prices paid for feed, seed, and other production goods originating chiefly in agriculture, except as these goods are affected by further increases in costs of transporting, processing, and servicing.

Further substantial increases are projected in the use of nonfarm inputs. And when farmers buy machinery, petroleum products, fertilizer, and other nonfarm inputs, they compete with other industries for steel, chemicals, industrial labor and services in a growing and prosperous general economy. There is no evidence of slackening in prices of these products. Therefore, the most important increases in prices paid by farmers are likely to come in the nonfarm inputs.

With little change projected in prices received, the larger output in 1965 would yield a greater gross income than in 1959 to farm operators as a group. However, our projections imply an increase in production expenses that would offset, or more than offset, the larger gross income. But even a lower realized net income in the aggregate would be divided among fewer farm operators. Therefore, the net income per farm from farming would not change much from the 1959 level. Income per farmworker might rise slightly between the two dates, but it would continue to lag behind the income of industrial workers.

We have mentioned that most of the decline in number of farms is likely to come in the smaller size groups. More farm operators who do not have sufficient land and other resources to provide a satisfactory income from farming are likely to seek either full-time or part-time nonfarm work.

Income to farm families from nonagricultural sources has become very important in recent years. In 1959, all resident farm families received \$6.8 billion from nonfarm sources, or about one-third of the total net income of the farm population from all sources. If rural development and other programs are expanded, they could accelerate the number of opportunities for nonfarm work.

In recent years, farmers who wished to sell their farms in order to engage in other employment, or to retire, could realize a capital gain from sale of their farms because of the upward surge in values of farm real estate. But many of the younger families who have bought their farms in order to get started in farming have had to incur large indebtedness, and interest and amortization have added to the fixed charges of their farm operations.

Many forces have contributed to the upsurge in land values since 1940. Demands for urban uses and the growing demand by farmers who desire to enlarge the size of their farming units have been important. Also important has been the demand by nonfarmers who, for various reasons, have regarded farm real estate as a desirable investment. Historically, however, the basic factor in the value of farm real estate has been the current and prospective level of farm earnings. In the last half-century, there were few extended periods in which farm real estate values and farm income moved in opposite directions (fig. 8).

Since 1948, farm income per acre has trended downward while value of farm real estate per acre has trended upward. The slight dip in per acre values in the second quarter of this year may be a forewarning that the unusual relation of land values to farm income is being reversed. A further softening of the farm real estate market by the mid-1960's would be consistent with our other projections. But the possible extent of the softening is conjectural. It is especially difficult to appraise the potential future effect on land values of factors other than farm income.

A most significant economic implication emerging from our projections is the imbalance between the projected number of farm youth and the number of opportunities for adequate employment in farming. With a relatively stable growth in farm population, about 250,000 male farm youth will be looking for gainful employment each year during the next decade. As one approach, we might define a gainful employment opportunity in agriculture as the operation of a farm of sufficient size to produce each year farm products valued at \$5,000 or more. For many types of farms, sales amounting to \$5,000 would provide only a modest net income.

Considering the net effect of deaths, retirements, movement of farm operators from smaller to larger farms, and movement of persons from nonfarm occupations to farming, opportunities for gainful employment as farm operators may average less than 25,000 annually during the 1960's. This means that only 1 in 10 male farm youths can look forward to operating farms with sales amounting to \$5,000 or more. Even allowing for a relatively wide margin of error in our calculations, the employment outlook for farm youth as farm operators is quite clear.

Our projections point also to some employment problems for those who are likely to find their best income opportunities as hired workers in agriculture. We have projected a gradually decreasing number of hired workers, although the number of family workers will decrease even faster, and hired labor will constitute a larger percentage of the farm labor force.

As previously mentioned, wage rates are likely to increase because of competition with nonfarm jobs. But more skilled workers will be needed for the increasingly mechanized farm operations. Migratory and other seasonal hired workers may encounter technological unemployment where mechanization of hand-labor operations proves successful. Thus, despite the prospect of some increase in wage rates, the outlook for improvement of the income and living conditions of many hired workers does not seem bright. And we must bear in mind that many of these workers are now at the lower end of the income scale in agriculture.

A few closing observations and warnings seem to be needed. We reemphasize that our projections and our appraisal of their economic implications rest heavily upon our major assumptions. We have pointed out the economic problems that farmers will face in the mid-1960's if recent trends are continued and if domestic and export programs continue about as in recent years.

In this paper, we have concentrated our attention largely on commercial farms. We have said that there will be fewer small farms in 1965 than in 1959. But the small-farm problem will not disappear. There will be areas and types of farming in which operators of small full-time farms will not be able to keep pace with changes, either by enlarging their farms or by obtaining nonfarm employment. Rural-development problems will still be with us.

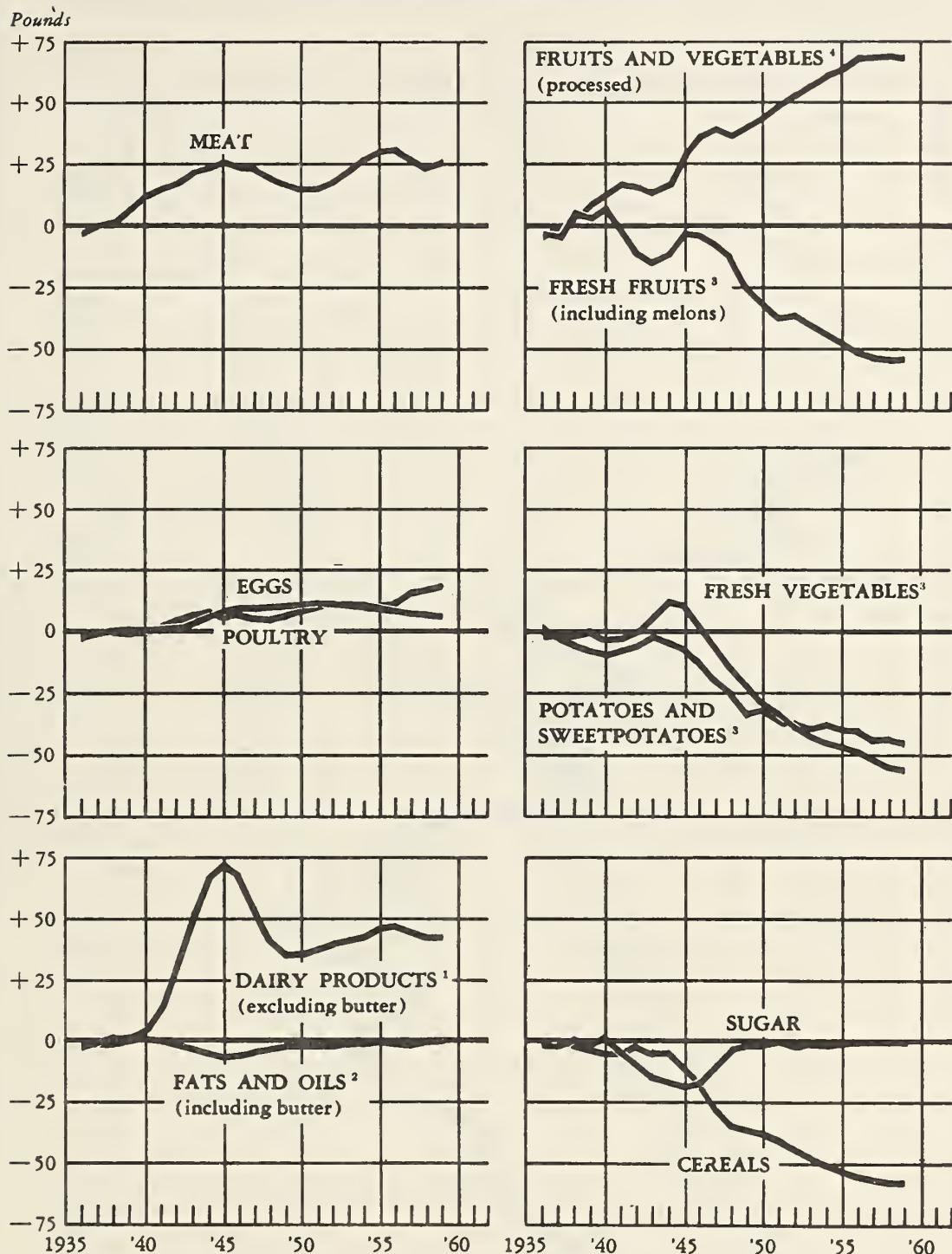
We have not considered the problem of what might constitute a desirable structure of agriculture from the standpoint of efficiency as well as the economic welfare of farm people. But we are convinced that farm people and professional agricultural workers will need to analyze, discuss, and reach conclusions on this problem in the years ahead.

We are not fatalists. We believe that steps can be taken to improve income and living conditions for all farm people--farm operators as well as hired workers including migratory laborers. We believe also that an understanding of the problems we are likely to face in achieving desirable aims is the first requisite for intelligent action. We hope that we have contributed a little to the necessary understanding of farm problems in the 1960's.

* * *

Changes in Food Consumption

From 1935-1939 Average Per Capita



Variations in retail weight. Civilian only. 3-year moving average centered.

¹ Product weight, except milk and cream content of ice cream.

² Fat content.

³ Includes home garden produce.

⁴ Includes frozen concentrated citrus juice on single strength basis.

U. S. AGRICULTURAL EXPORT VOLUME

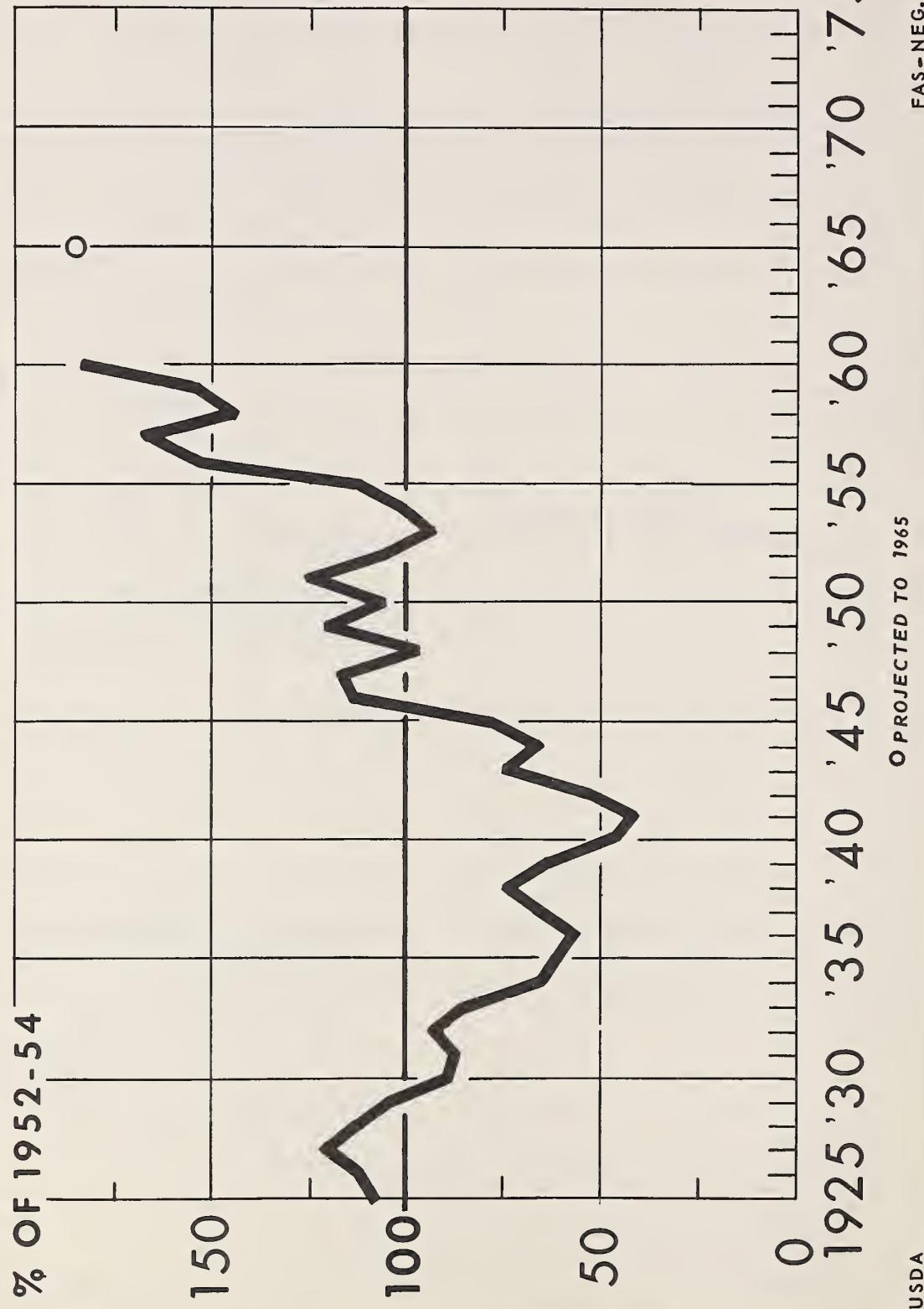
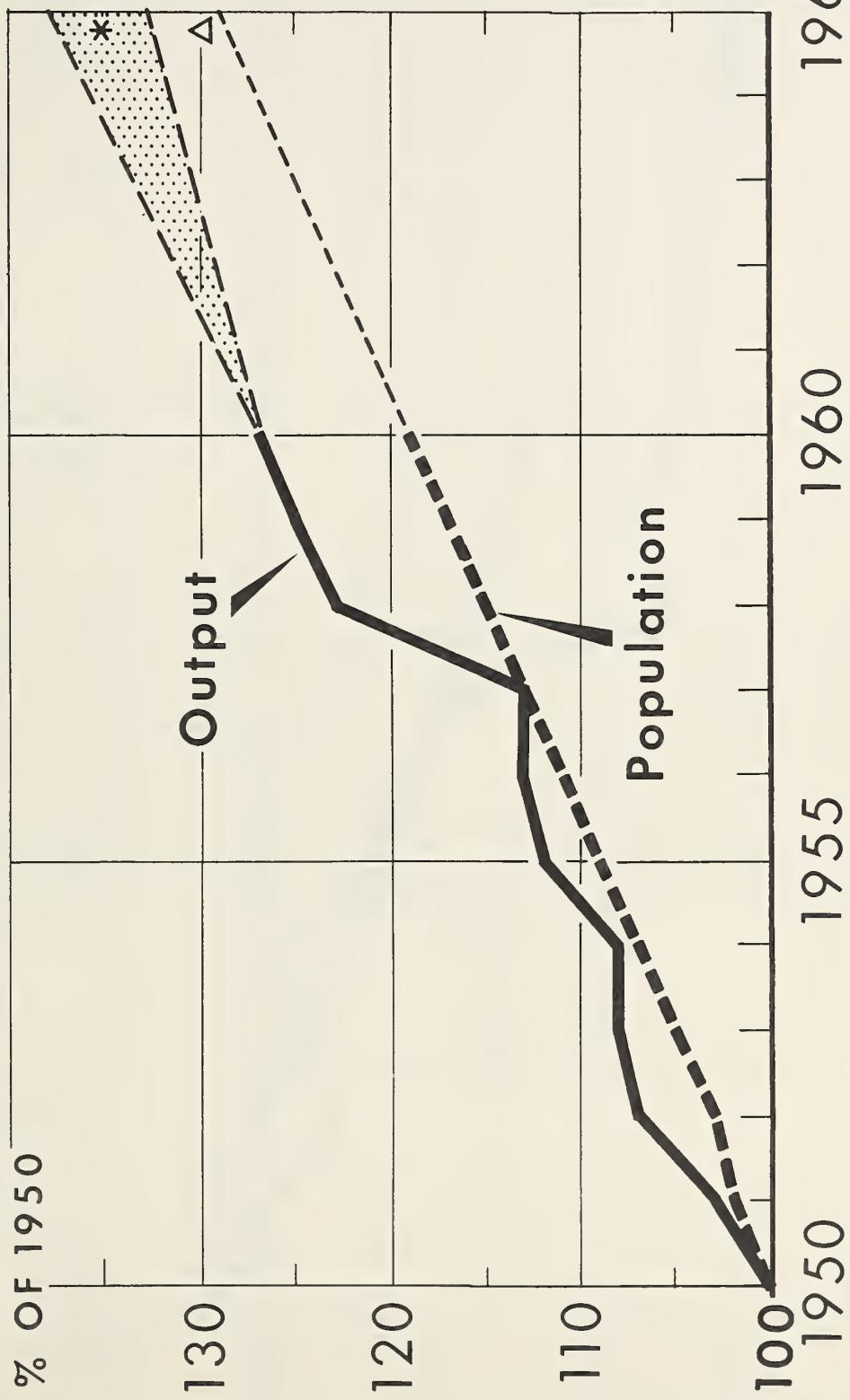


Figure 2

U. S. POPULATION AND FARM OUTPUT



△ BASED ON CENSUS SERIES II PROJECTION.

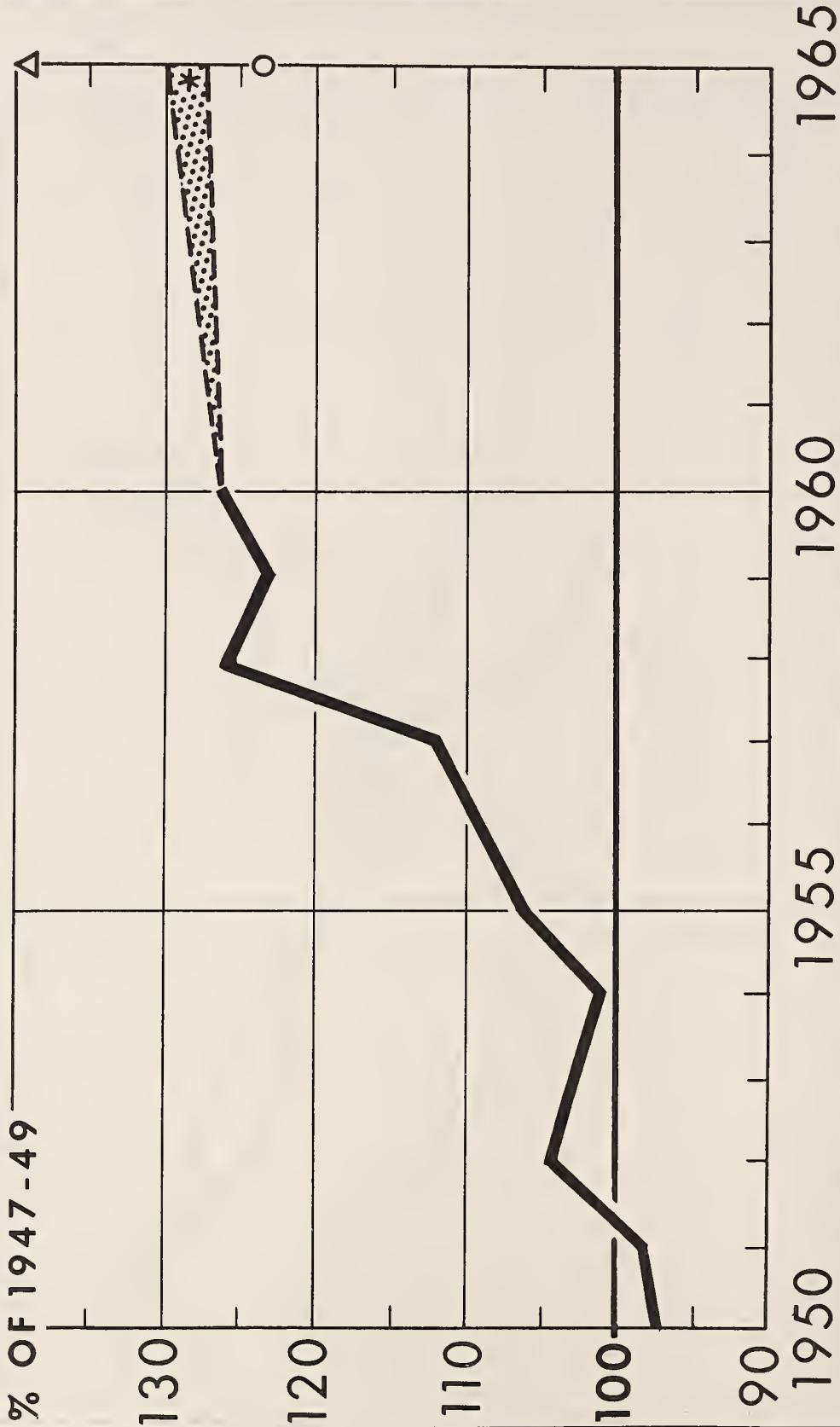
* BASED ON ALTERNATIVE LEVELS OF CROP PRODUCTION, AND PROJECTED OUTLETS FOR LIVESTOCK PRODUCTION.

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Figure 3

CROP PRODUCTION PER ACRE



* BASED ON ALTERNATIVE LEVELS OF CROP YIELDS AND 1959 COMPOSITION OF ACREAGE.

▲ BASED ON 1950-59 TREND.

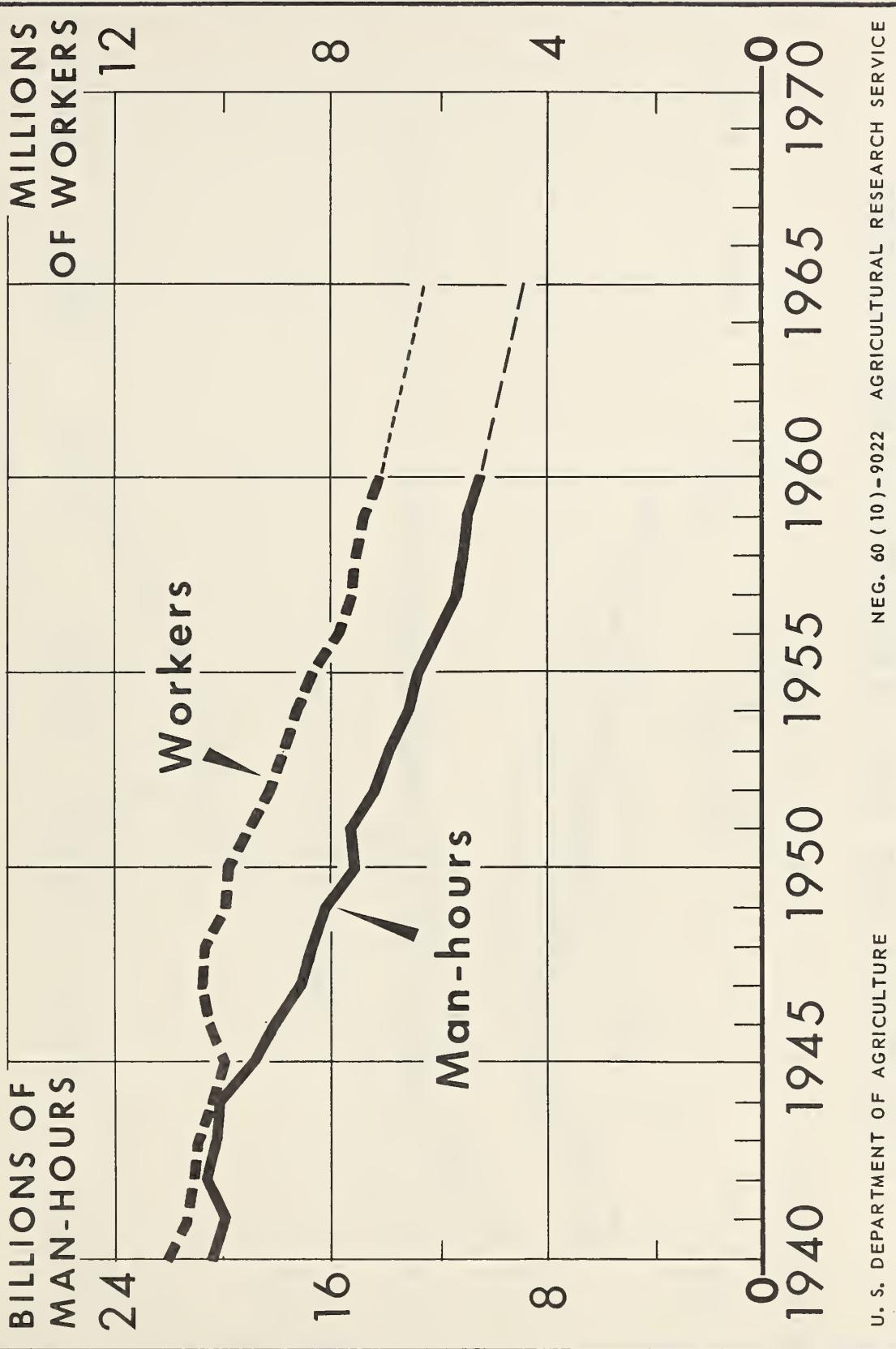
○ BASED ON 1937-59 TREND.

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EMPLOYMENT AND MAN-HOURS OF FARM WORK

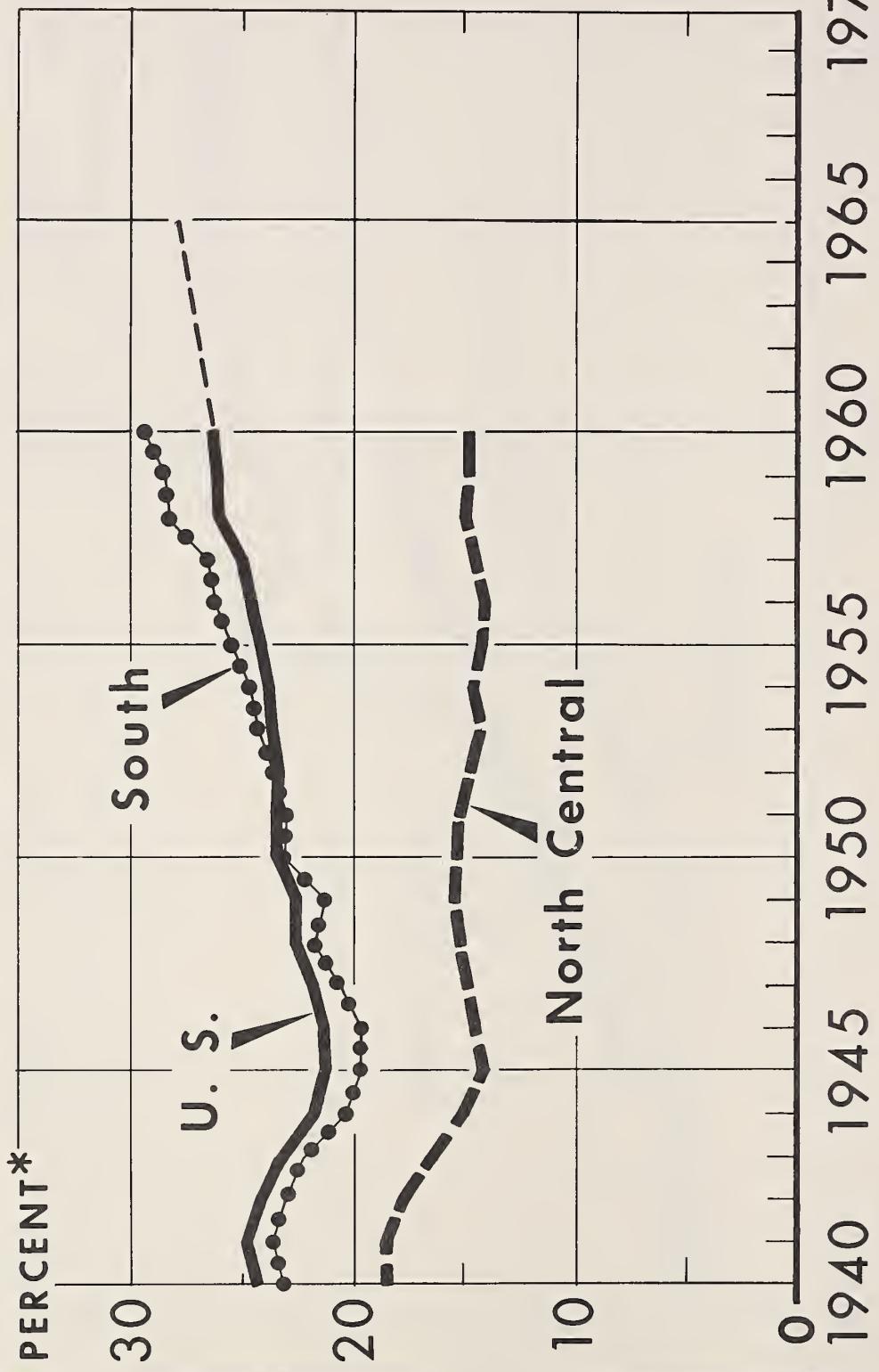


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Figure 5

PROPORTION OF FARMWORKERS HIRED

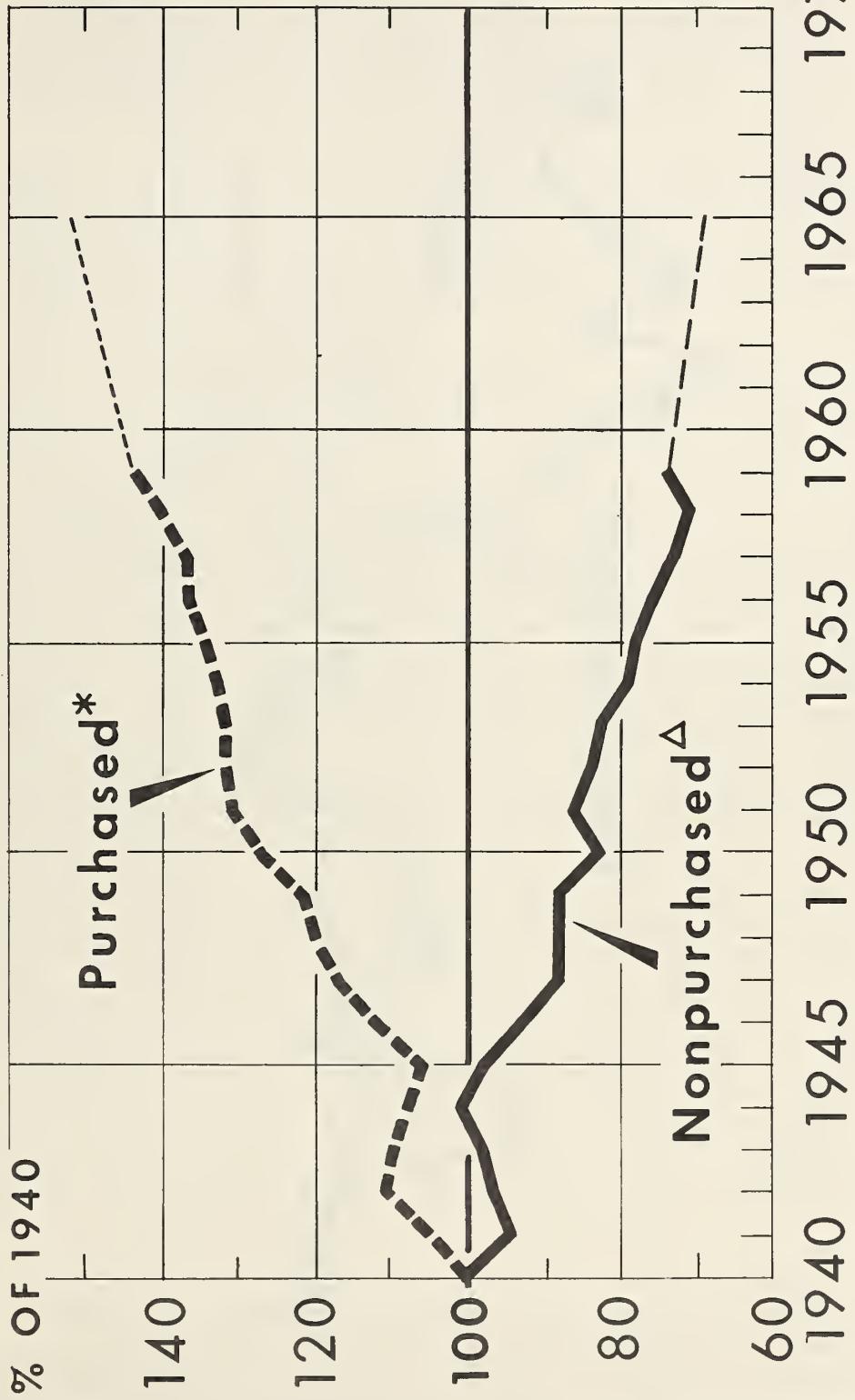


* PERCENTAGE HIRED WORKERS OF TOTAL FARMWORKERS

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PURCHASED AND NONPURCHASED INPUTS



* ALL INPUTS OTHER THAN NONPURCHASED INPUTS.

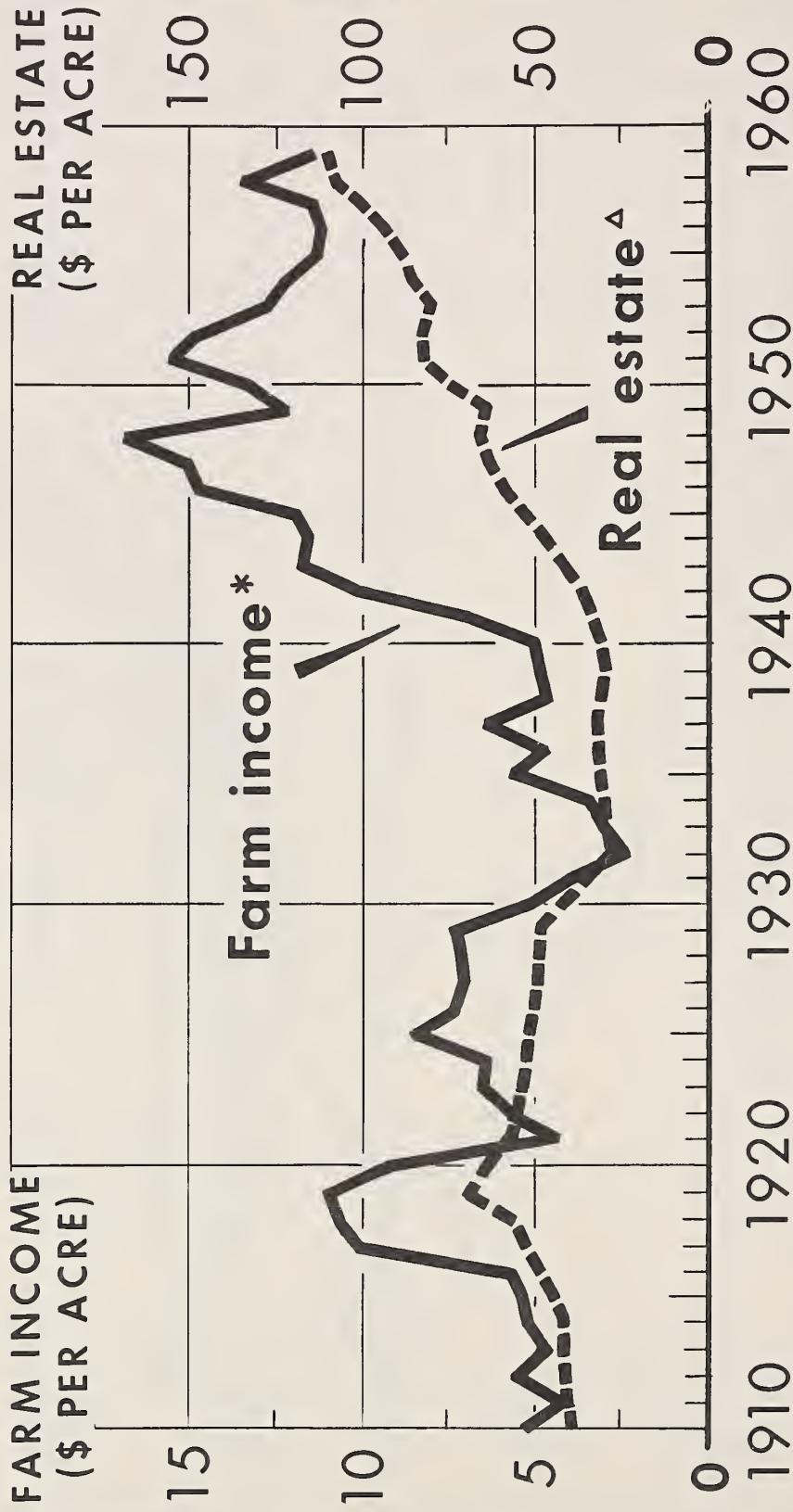
△ OPERATOR AND FAMILY LABOR, OPERATOR-OWNED REAL ESTATE AND OTHER CAPITAL INPUTS.

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Figure 7

FARM INCOME AND REAL ESTATE VALUES



* NET INCOME OF FARM OPERATORS, PLUS INTEREST ON FARM MORTGAGE DEBT
AND NET RENTS TO NONFARM LANDLORDS

▲ FARMLAND AND BUILDINGS. MARCH 1 OF FOLLOWING YEAR

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ECONOMIC DEVELOPMENT

D. A. FitzGerald
Deputy Director for Operations
International Cooperation Administration

The topic assigned to me this morning has a brief title--Economic Development--but global implications. Obviously I cannot begin to discuss the subject comprehensively in the time available, It would take more days than I have minutes.

I bypass therefore any discussion of economic development in the United States pausing only long enough to note that economic growth in this country in the last decade has run at the rate of $2\frac{1}{4}$ percent per capita year. You are well aware of the changes in the demand for agricultural products resulting from the high and growing incomes of American consumers.

I pause only long enough to tip my hat to economic development in Western Europe, Canada, Japan, New Zealand and Australia, the more developed countries of the Free World. While there is great variation between the 18 or 20 countries in this group, their per capita economic growth has averaged about $3\frac{3}{4}$ percent per year in the last decade. While the rate of population growth varies considerably from one country to another in the group, they all have one characteristic in common, a literate and relatively highly trained population--socially, politically, technically, and managerially. During the last decade U.S. exports to this group of countries have increased from \$6.7 billion dollars to \$9.5 billion dollars, or 42 percent, while our total exports during the same period have increased 36.5 percent. Our economic interest in the maintenance of adequate rates of growth in these parts of the world is obvious. Some Americans have become preoccupied with the increased competition resulting from the economic growth of Western Europe and Japan. I prefer to note simultaneously the expanded market for American production.

One other characteristic of these countries should be noted. By and large they are able to finance their economic growth from their internal resources or by recourse to normal international financing. Indeed most of them are beginning to (a) make commercial investments in less developed areas of the world and (b) make economic assistance available to these countries on non-commercial terms. Let me hasten to add that some of these countries, United Kingdom, France and Belgium, for example, have for decades been providing assistance to their former colonial territories. Today more of this group are beginning to provide economic assistance to less developed countries. We believe, in general, that they are able to do more than they

are now doing.

Let us now turn, again very briefly, to a third group of countries, the Communist Bloc. Per capita GNP ranges from about \$1,000 in the USSR to perhaps \$120 in Communist China. Economic growth both in the USSR and in Communist China has been relatively large even if not quite as spectacular as claimed. While during the last decade the absolute increase per capita in the United States exceeded that of the USSR, the more significant fact is the relative rates of growth. If per capita GNP in the USSR continues at the same rate in the future as it experienced in the last decade-- $4\frac{1}{2}$ percent per capita per year--it would "catch up" with that of the United States in about 50 years.

As you all know during the last half of the decade the USSR has initiated a program of assistance to less developed countries of considerable and growing magnitude. From January 1953 to mid 1960 commitments are estimated to have amounted to \$2.5 billion dollars. Expenditures to date are currently estimated as amounting to not more than \$3/4 billion so economic assistance actually delivered by the USSR during the decade of the fifties amounts to less than 35 percent of annual U.S. assistance. Economic assistance from Communist Russia has been concentrated in relatively few countries. In these, particularly Afghanistan, India, Egypt, and Indonesia it has been of significant magnitude. Other Communist Bloc countries, even including Red China, have gotten into the act in the last years, although in the case of Red China the assistance has had more propaganda than actual developmental value.

Russian economic assistance differs in so many respects from that provided by the United States that comparisons are difficult. First and foremost practically all Russian assistance is on a repayable basis, either in commodities or convertible exchange. While the interest rate is ostensibly modest, usually $2\frac{1}{2}$ percent, the repayment period is relatively short, 10 or 12 years being the most common.

The Russian technique is generally to offer what might be called a line of credit which is skillfully used in a concomitant propaganda campaign. Subsequently details of the actual projects are developed, usually with a very considerable time lag, but the completion of these individual project agreements is the occasion for another propaganda barrage which frequently leads the casual observer to double or sometimes triple count the assistance being provided.

Informed observers conclude that performance, while far from perfect, has been good and is getting better. Originally there was considerable complaint about poor quality and slow delivery but these shortcomings are being corrected. The number of USSR technicians overseas is increasing rapidly and now amounts to over 6,000. Russian technicians are not the paragons of competence which we are sometimes led to believe but they are no mean adversaries. In some of the border countries such as Afghanistan most of the technicians speak the native language but the ability to do so is by no means universal and interpreters frequently have to be used. However, all reports are that the USSR is working industriously to overcome this language deficiency. Because of its dictatorial type of government the USSR can "give orders" in a way which is

impossible for this country.

USSR technicians are required to live much more modestly in the underdeveloped countries than U.S. citizens are willing to do. This has a psychological and propaganda advantage in almost all underdeveloped countries.

Now we turn to a fourth group--the less developed countries themselves of which there are or shortly will be about 100, with a population of about 1.2 billion--40 percent of the world total. While the statistics are frequently rudimentary and occasionally completely nonexistent, one must conclude that the average per capita GNP of these 1.2 billion people is in the order of \$100 per year, about the equal of the per capita GNP of the average American for 13 days. With some exceptions, the growth of the total gross national product in these countries during the last decade probably has not exceeded 2 percent per year. This statistical abstraction is something like that which concludes every family in the United States has an average of 2.3 children, or whatever the figure is, but I have never seen .3 of a child even in one family much less in every family in the United States.

Now we have to note another general characteristic of these less developed countries, namely their rate of population growth. The 2 percent increase in gross national product previously mentioned is the increase in the total product of each country. While statistics are again quite inadequate in most instances, it is clear that the rate of population growth is also something like 2 percent per year. The increase in the underdeveloped countries is greater on the average than it is in the more developed countries. This combination of a small annual increase in the gross national product and a relatively large increase in the population has resulted in many of these less developed countries in a stagnant or even a declining per capita gross national product.

There is every prospect that the rate of population increase in the underdeveloped countries will stay at a high level. Indeed with the next decade or two the rate of population growth in these countries may even increase. Those health factors--malaria, yaws, malnutrition--which currently result in a high death rate and short life expectancy are relatively easy to control. The clear prospect is that death rates in less developed countries will decline steadily and spectacularly in the next ten or twenty years. There is no evidence that there will be a similar decline in the birth rate.

Now let us turn briefly to another aspect of the problem. As a rule of thumb about 3 percent of the per capita GNP must be siphoned off into new investment every year to produce a 1 percent increase therein. Thus in the hundred odd less developed countries as a whole if their annual population increase amounts to 2 percent, net investment annually will have to amount to about 6 percent of GNP merely in order to maintain per capita GNP at the existing level.

Now let us assume for the purpose of discussion that a reasonably objective would be 5 percent per capita per year increase in GNP. Certainly in the abstract this is a very modest target. With average per capita income in the hundred odd countries now about \$100 a

year, this would mean an additional \$5 bill every 52 weeks. (Because of the compound interest effect the increase the second year would be \$5.25 and so on, but still modest.) Per capita GNP on this basis would double in 14 years to the magnificent amount of \$200.

Total capital requirements needed to achieve an annual per capita growth rate of 5 percent in the less developed countries, on a 3 for 1 rule of thumb basis, totals over \$25 billion. Average investment from domestic savings in the less developed countries ranges from less than enough to maintain per capita GNP in some countries to perhaps enough to obtain a 2 percent increase in others. These domestic savings probably range from $\$7\frac{1}{2}$ to $\$12\frac{1}{2}$ billion, let's say \$10 billion. Thus capital import requirements to achieve a per capita annual growth rate of 5 percent in the less developed countries would be in the order of magnitude of \$15 billion per year.

Economic assistance from the major free world industrialized countries in 6 years, 1954 to 1959, totalled about \$18 billion of which the United States contributed about two-thirds. Total external investment in the less developed areas of the world from all sources, while larger now than earlier, currently does not exceed \$5 billion a year, an amount sufficient to permit a per capita GNP increase of $1\frac{1}{2}$ or 2 percent a year. The actual growth rate is probably even less. Even at $1\frac{3}{4}$ percent, per capita GNP in the underdeveloped countries would increase from \$100 to \$200 a year only after the lapse of 40 years. At the same time, assuming continuation of the rate of growth of the last decade, the United States, the rest of the industrialized free world, and the USSR would have absolute per capita GNP increases of \$3,918, \$2,607, and \$4,912, respectively. Even if the growth rates in these three areas of the world were to be only half those of the last decade, increases would still be such as to create what would be, in my opinion, an intolerable disparity.

It seems to be clear, therefore, that the more developed countries in the world must provide more resources to less developed areas than has been the case during the last decade. While I believe that all of the industrial countries need to do more than they are now doing, a smaller increase by the United States and a larger percentage increase by other countries would seem to be warranted. No doubt of course the lesser developed countries should do a great deal more, and must do considerably more, to help themselves than many of them are now doing. We should expect the maximum effort on their part but let us not expect the impossible.

Even in the more developed countries of the world, including the USSR, there have been numerous errors of both omission and commission. In the democratic West there is the further consideration that the government is subject to the will of the people. I note that we frequently expect the government of a less developed country to take the kind of hard economic or political decisions that even we in the United States find it impossible to take. The fact that we have sufficient economic resources so that we can misuse them or fail to use them most effectively is hardly sufficient justification for our expecting better performance by less sophisticated governments.

This leads me to comment on one characteristic of the lesser developed

- 5 -

countries generally which distinguishes them from the rest of the world. Both more and less developed countries may have vast or limited physical resources but I know of no country making adequate economic progress which does not have a literate and trained population. While bountious natural resources are most helpful to economic growth, adequate trained human resources are an absolute prerequisite. The development of such resources is a time consuming process. I hazard a guess that it takes longer to develop these than it does to develop physical resources. And the lack of trained human resources limits the absorptive capacity of most less developed countries. Even if the \$15 billion odd dollars a year needed to obtain an annual per capita increase in GNP of 5 percent in less developed countries were available, I do not believe that currently it could be absorbed because of the shortage of trained human resources. Thus the expansion in trained manpower must, it seems to me, precede any substantial increase in the absorptive capacity of the lesser developed countries. And it is in helping the lesser developed countries of the free world to develop their manpower resources that we need to devote more and more effort.

What do these prospects for economic progress in the less developed countries hold out for American agriculture. It seems to me that in terms of a commercial market for U.S. agricultural production, the 100 odd less developed countries will be much less important than the 20 or so more developed countries. On the other hand, I would not expect the lesser developed countries to be large competitive suppliers of agricultural products either to the United States or third countries. Finally a number of these 100 countries will be significant outlets for certain U.S. agricultural products for many years, particularly if they can continue to obtain these products under special sales arrangements such as those authorized by PL 480.

THE ECONOMIC RELATIONS OF THE UNITED STATES WITH
FOREIGN COUNTRIES: LONG TERM PROSPECTS

by
William C. Foster
Vice President and Senior Advisor
Olin Mathieson Chemical Corporation

The background of economic policy today is a great and probably irrevocable division of world thought, a fundamental split that concerns the very purpose of human existence.

The industrialized free countries that ring the north Atlantic are, together, the liberal power center of the world. Japan is struggling to become a member in common understanding of this Western liberal society of nations. A new Communist Commonwealth, taking in Eastern Europe, Soviet Russia, Communist China and the half-nations Communist China has been able to break off the borders of the free world, seeks to impose the authoritarian view and destroy the liberal view of human existence.

About a fifth of the world's population resides in the Atlantic Community nations making up the liberal power center, mainly in highly industrialized countries. The communist nations take in nearly a third of mankind. Two thirds of the communist world, about a fifth of humanity, lives in underdeveloped communist nations, and the other third, a tenth of humanity, lives in industrialized communist nations.

Between the two systems lies the other half of humanity in comparatively less developed nations of the free world, in the Middle East, nearly all of Africa, most of Asia and most of Latin America.

The chief danger, as I see it, does not lie in any present, or even future political inclination these nations may have, but lies instead in the fact that they are not organized around a power center, and that they have no world authority. But it may be that in the United Nations the underdeveloped nations hold the makings of a new type of world authority. This could, in the end, be decisive. However, this is speculation, and for the time it is a sufficiently realistic view of the underdeveloped nations' political and world-power status to classify them, for the most part, as enthusiastically uncommitted.

The division of world thought has produced a competition of systems that is the central world fact of the late 20th Century. We speak of a

competition of systems. But in the West we tend to think and act in terms of a competition between the United States and the USSR, both in short, or tactical, and long, or strategic terms. The managers of the USSR, by contrast tend to see the contest as one that will be -- can only be -- won by the performance of a system of nations not by the performance of the chief nation within a system. Khrushchev laid this view clearly before the 21st Congress of the Communist Party of the Soviet Union, in Moscow, early in 1959:

"Comrades, an economic competition between the USSR and the USA, between the entire world socialist system and the world capitalist system, is in progress on the international scene..."

"The level of production in the capitalist system as a whole lags far behind that of the United States. There is a big, constantly widening gap between the various capitalist countries in rates of economic growth.

"At the same time, all the countries of the world socialist system are making rapid economic and cultural progress. High rates are a general, objective law of socialism, now confirmed by the experience of all the countries of the socialist camp...."

Mr. Khrushchev's description ignores the "big, constantly widening gap between the various" socialist countries, to use the expression Mr. Khrushchev used to take note of the same condition in the capitalist world.

But what I find of chief interest is Khrushchev's view of the special values of the Marxist nations system. He regards achievement and progress in all parts of the system as being not only possible but as absolutely necessary, because he wants it established in the mind of the world that to be within the Marxist system is the same thing as saying that you are within a fast-growing area of economic development; that you can join the process of fast economic growth any time you want to, simply by leaving the capitalist world and becoming Marxist. This means progress and achievement -- forward motion -- everywhere. That is a considerable objective, because it says that for socialism no economic problem is too small to get attention, and that no economic problem is too difficult for Marxist planning to grasp with confidence.

Many of the problems besetting the communist world today are the problems of success. They arise either from geographic aggrandizement of communist territory in the past fifteen years or from the economic progress of the USSR and part of communist East Europe out of the simple world of scarcity into the more complex world, much harder for planners, of relative plenty.

The apparently most realistic, and certainly the most prudent thing for us is to assume that the communist world will continue to move along the path of general and fairly rapid economic growth. Such an assumption

seems all the more realistic and prudent if we remind ourselves that the communist leaders have stated openly and often that they have no intention of trying to equal our per capita output of everything, but intend to equal our performance only where it suits their purposes.

Our main and controlling long-term response to the communist challenge should be, first of all, as systematic as the challenge. The test is our ability to improve the performance of the whole free world, to make at least as good a showing for all life under free enterprise as the communists make under Marx. That is, the challenge we must meet is a challenge to make our system work well.

What then are the main long-range economic policies by which we set out to make sure that our liberal western society is and will remain competitive in the face of challenge from a system that intends to displace ours as the epitome of its times?

In a nutshell, they should be economic policies that permit and encourage the Western liberal industrialized world of the Atlantic Community of nations to become a coherent operating system consciously aiming at its own overall continued and rapid economic growth and at the advancement of all parts of the free underdeveloped world. The common underlying principle of the Atlantic Community's economic policies must be the preservation and extension of economic efficiency. It is the oldest lesson of economic freedom that free enterprise is economically justified only by the efficiency it promotes through competition. But freedom and competition must result in greater cohesion, not in increased divisiveness. Efficiency, competitive freedom and greater unity are our somewhat conflicting Atlantic Community objectives.

Elements of Disunity

To come into being as an effective society of nations the Atlantic Community must surmount strong forces tending to fragment it. At its heart is the European Economic Community, or Common Market, consisting of France, Italy, Germany, Holland, Belgium and Luxembourg. These nations, known as "The Six" set up shop in 1958 as a customs union designed to lower tariffs among themselves to zero over a twelve-year period, while gradually bringing into force a common external tariff. But it is important to note here that the Common Market is more than an economic organization. Much of its impetus has come from a strong feeling among many of its promoters that a new European nation should be created to take the place of the six founding countries. This process has obvious discriminatory features against all outside it. The effects of the Common Market are so considerable that Britain, Norway, Sweden, Denmark, Portugal, Switzerland and Austria banded together in 1959 as a rival European Free Trade Association, called usually the "Outer Seven." These countries will lower tariffs operating against one another but have no political federation in mind and are not planning to adopt a common external tariff. Once again, there are obvious discriminatory advantages to the members.

These special arrangements in Europe broaden out to much of the rest of the Free World in spheres of influence I want to discuss a little later. Another important divisive influence within the Atlantic Community itself is the fact it embraces some of the world's main capital exporting countries, and countries or areas such as Greece, Southern Italy, Portugal and Spain, themselves needing developmental help. This makes for a wide range of basic economic outlooks within the Community, and consequently for very different, often conflicting views of the direction basic policy should face.

The Common Market, despite the economic discrimination it involves has to some extent served the growth of the Atlantic Community because it has tended to broaden thinking about Western economic policy from national toward a larger framework. In a number of her present policies, France appears to feel it is her duty to rebuild nationally before she can make larger common causes. In Great Britain the agreement of the MacMillan government to base Polaris firing submarines in Scotland gave prominence to "unilateralists" who oppose such common defense and hope Britain can "go it alone."

Ingredients of Unity

To provide the broadest possible frame of reference for the reconciliation and suppression of the disintegrative forces of several kinds at work in the Atlantic Community area, the United States this year proposed formation of a new consultative body, to be called the Organization for Economic Cooperation and Development (OECD). This would take in the membership of the wonderfully successful agency for European cooperation in use of Marshall Plan assistance, the Organization for European Economic Cooperation (OEEC), plus the United States and Canada. OECD, that is, would cover the entire Western European and North American areas. OECD is intended to be the working instrument through which the Atlantic Community could discover, propose and administer policies for the assistance of and the increased efficiency of the Atlantic Community nations, while at the same time extending effective competitive freedom, increasing the Community's cohesion and overseeing and coordinating policies for the assistance of the underdeveloped nations.

The immediate, but not necessarily the ultimate objectives of the Atlantic Community are almost exclusively economic. I think a common economic interest is fundamentally necessary to any reliable coalition of this type. But it seems almost obvious that if this common economic interest turns out to be genuine and lasting it will arouse interest in something broader, including the cultural and the political, perhaps even in the end, an Atlantic Federation.

For instance, growing out of the Atlantic Congress held in London in June of 1959, there is an active group of political and economic leaders working on a so-called Atlantic Institute, a Center for thought and research in developing ideas to bring the Community closer together

and to bring the best minds in the Community to bear on the kind of problems we are discussing here today. The Institute is not yet in operation but its very inception and the men whose interest it has enlisted is an indicator of progress to come.

Policy that promotes rapid economic growth is necessary to the Atlantic Community. For one thing, vigorous economic growth is needed to make it possible for these most advanced nations of the Western World to keep their own resources efficiently employed and to achieve rises in their own standard of living that do not disappoint the expectations of their own peoples.

If the best developed nations of the West do not make a good showing at home there can be no general good showing. It goes without saying that a good growth record is necessary if the Community nations are to be able to furnish assistance to the underdeveloped nations on a dependable, long-term and generous basis. The more broadly this growth is shared among the Atlantic Community nations themselves the more broadly can the whole Community participate in assisting the less developed nations of the free world to better standards of living.

Finally, vigorous economic growth is needed throughout the Atlantic Community nations so that the Community can carry for an indefinite time to come the defense burden it must carry, and share the burden fairly.

The way to maximum desirable economic growth is economic efficiency, that is, a high rate of productivity. This involves many things, but at the international level one of the surest ways to increase economic efficiency is to reduce the barriers to trade, chiefly tariffs, where they are a shelter for inefficiency. Commercial policy has an essential role to play in promotion of economic growth in the Atlantic Community. Both in this way, and more directly, trade liberalization is a necessary element in the systematic effort the West should make to encourage economic progress in all parts of the free world. If this attempt is to succeed, investment in the underdeveloped areas must be seconded by a wider opening in the markets of the Community nations for the goods of the underdeveloped countries.

The Atlantic Community should be an open community, neither divided into protective and disintegrative fragments, nor roped off from the rest of the world as one big self-serving area of protection. A general, substantial and nondiscriminatory reduction of external trade barriers of the countries of the community is the most effective way to advance toward the open but cohesive and purposeful Atlantic Community we need.

The members of an open industrial center could expect to garner enormous benefits from improved allocation of resources. Further, the general opening of trade portals would increase competition and make business rigidities harder to maintain.

One improvement in use of resources should come in the use of agricultural products. It can be expected that Western Europe will continue to draw closer to the technological level of United States industrial production. Some time in the fairly near future Europe's technology may be fully equal to ours. As this happens the significance of our comparative advantage over Europe in farm production should increase. One aspect of the development of trade between the United States and Europe under these conditions might be an expansion of United States agricultural exports to Europe, paid for with an expansion of European industrial exports to this country.

This process would require dismantling of the present protective European barriers against agricultural imports from the United States and dismantling of European subsidies to agriculture. On our side, it would require progressive abolition of our own agricultural subsidies, since, under the regime of economic efficiency Europe would expect to get its agricultural imports from the United States at economic, not subsidy, prices.

The United States Balance of Payments

The question comes to mind, could the United States enter into any such program, given its balance of payments difficulties? As you probably know, the United States has been spending more abroad than it has been earning abroad, with the result that foreign dollar -- or gold -- claims on us have been growing. In the two years 1958 and 1959 the United States accumulated a deficit in its transactions with the rest of the world amounting to some seven billion. Through the first half of 1960 our balance of payments deficit was at an annual rate of two and three quarter billion. This was a considerable improvement over each of the two years before, but it is still quite a deficit.

We could set out to reduce this deficit by a program of controls to limit imports or by cutting down on spending abroad, such as for assistance and troop support, that is essential to present United States economic, military or political programs. It is possible we could have balanced our payments with the rest of the world at some lower level of transactions, and at some reduced scope of United States influence in the rest of the world. But expectable foreign reprisals make this doubtful.

The Research and Policy Committee of the Committee for Economic Development, where I am Vice Chairman for International Economic Policy, answered this policy question in a statement issued early this year. I would like to quote you the heart of our Committee's opinion.

"We can and must correct our balance of payments position in ways that are consistent with the major objectives of United States policy. These objectives include the maintenance of high employment and economic

growth at home, stability of the purchasing power of the dollar, continued United States contribution to the military strength of the West and to the economic progress of the underdeveloped world, as well as the leadership of the United States in moving towards a free international trading system. These objectives clearly indicate that (1) we must seek solutions to our balance of payments problem that will increase our ability to compete in world markets and that (2) we must avoid restrictive solutions that would raise barriers to world trade or limit expenditures abroad that are essential to United States economic, military or political purposes -- The solution to our balance of payments problem should lie, therefore, not in the direction of restraints on imports or upon United States foreign investment and assistance but in expansion of our exports of goods and services. The surest way to expand our exports is to better our competitive position."

This policy statement pointed out that a solution to our balance of payments problem is in the interests of the whole free world, not of the United States alone. The dollar is the world's reserve money. In this sense we are the world's banker. It is to the interest of all to see to it that their bank is sound. Consequently, it very much behooves our partners in the free world, and particularly the advanced nations of the Atlantic Community to work cooperatively with us to find ways to preserve desirable programs but to avoid drains upon our gold stock or dangers to it that weaken the dollar.

Atlantic Community Relations with the Underdeveloped Countries

We have already noted in our discussion of tariffs that the Atlantic Community can probably help the underdeveloped countries of the free world most of all by opening our markets more widely to their goods. The underdeveloped countries must import to develop. Their ability to import is the chief restraint on their ability to develop. To the extent they can pay for their imports by their own earnings in Atlantic Community markets they will not require assistance grants or credits.

Investment is another chief instrument of development assistance. It is an obvious instrument, given the fact that underdeveloped nations need net new capital added to their resources. I think we need not pause to discuss the benefits of investment, either private or governmental, in that sense. What I do want to discuss is investment as an instrument in creating the better format we want for a development alliance between the industrial heartland of the free world -- the Atlantic Community -- and the less developed free world areas containing half of mankind.

The free world divides roughly into three general spheres of influence. The Common Market nations of Europe have extensive special arrangements with many non-European countries, particularly in Africa, based on past colonial relationships, giving these associated countries very strong tariff advantages in the Common Market. Great Britain's Empire Preference system embodies a similar set of special relationships based on past colonial ties and on empire links, all now wrapped up in the British Commonwealth. Empire Preference is smaller in terms of tariff advantages

than what might be called Common Market preference. Thirdly, the U. S. has long maintained special economic as well as political relations with Latin America. This classification leaves some loose ends, but represents the problem I want to get at.

Such spheres of influence are incompatible with the growth of a genuine community spirit among the nations of Western Europe and North America. Further, they divide the underdeveloped nations into groups where development may be quite uneven. Such groups tend to lose touch with one another and thus to lose the benefits of cooperation among themselves in the solution of important problems. For instance, African countries linked with the Common Market nations are increasing coffee production rapidly, because their special arrangements with the Common Market will give them an advantage in selling their coffee in Europe, meanwhile, surplus coffee piles up in Latin America.

An open Atlantic Community permitting and encouraging free flows of capital from and to all its parts and between all its parts and all parts of the underdeveloped nations of the free world would start a knitting together process where today we have strong tendencies to divide and become hostile. Freedom for capital to flow where it is needed and to send its earnings where they are wanted, together with an open free world trade community, would put us on the track of solution to some of our worst commodity surplus problems and greatly increase the efficiency with which the free world uses its human and material resources. Under these conditions there is probably no part of the free world that would not attract private investment, to say nothing of government investment or investment by the World Bank or like agencies. That is to say that if we are able to break down present barriers to the flows of trade and capital and earnings on an economic basis we will have moved a very long way toward developing a free world system in which all parts can and will benefit. If we cannot, we are in danger of letting some parts of our world stagnate, and of keeping all parts of it from attaining the economic efficiency we need to meet our expectations and carry our burdens.

I would like to note in this respect that it seems to me the agricultural surpluses of the United States are a capital treasure that we should be able to employ in development assistance without disrupting world trade and without endangering balanced development of new economies. I am aware that the economies of this are not yet settled and that the role of agricultural surpluses in development is much disputed. But I am also aware that half the world's population suffers from some degree of undernourishment or malnutrition. I am also aware that the world's present population of some three billion people may double in no more than the next forty years. I take that to mean that in so short a time we would need twice as much good food as we now have to maintain even our present unsatisfactory standards of world nutrition.

This means, among other things, that one of the key elements in development assistance is improvement of agricultural productivity in the new economies. Low farm productivity is one of the most usual characteristics of underdeveloped countries and economies everywhere except for a few agricultural specialties where productivity is high. Therefore we must not, in seeking to dispose of our farm surpluses inhibit balanced agricultural development where it is needed. But I think we should also be looking at the fact that the very high agricultural productivity of the United States is one of the great potential assets of the free world, and one that is unknown anywhere in the communist world. It results in part from the conjunction of vast, thinly populated plains where bulk crops can be raised within the same national boundaries holding a large, highly industrialized urban population providing a market for great amounts of farm products and supplying farm machinery, fertilizers and the like at reasonable prices. The other places in the world where this occurs or can occur are few. It may be that working out the economies of using United States food and fibre surpluses in development aid would be one of the most significant steps we could take toward making our system work coherently and toward gaining an advantage in the competition of systems in which we are engaged.

I would like to illustrate with an example arising from one of my own experiences as a businessman with the underdeveloped world, an experience that sharply illustrates, I think, the advantage our adversaries have in operating as members of a coherent system.

In the Fall of 1958, General de Gaulle offered to the members of the French West African Community their choice of association with metropolitan France or independence. To his surprise, Sekou Toure, the political leader of the then French Territory of Guinea, asked for independence. Immediately France saw fit to pull out of Guinea all French support in terms of people and things including hardware from buildings and some essential drugs. The newly independent country was, thus, immediately in desperate trouble and in need of aid. Sekou Toure, who became President of Guinea, asked for aid from countries in the North Atlantic Community, including the United States, and from the Soviet Union. The United States expressed interest and sympathy and actually did help to have Guinea accepted as a member of the United Nations that Fall but was, to put it mildly, slow in doing much else. Having officially recognized Guinea, and having established an embassy there, it was eight months before we sent an Ambassador. They were in desperate need of wheat and rice, of which as you know, we had plenty, but it was many months before a shipload was sent to Conakry, the Capital. Meanwhile, within days, members of the Soviet system, established embassies with competent ambassadors in Conakry, proffered and delivered aid of various kinds and sent in dozens of technicians ostensibly to instruct. By the time the Western nations had begun to deliver physical tokens of their interest and concern, members of the Soviet system, as represented by East Germany, Poland, Czechoslovakia and Communist China, had major staffs entrenched, had sent in tons of goods including arms, and were well established in most of the important governmental offices in the new nation.

Our company, which as part of an international consortium called Fria, had developed in Guinea a bauxite mine and was building a plant to produce alumina from that bauxite. We quickly did what we could to help within appropriate limits of corporate resources and in so doing found that Sekou Toure, while finding it essential to accept aid, resources and human skills from the East, appeared not anxious to become part of the Soviet system. Over the two years since Guinea's independence, however, he has felt it necessary to accept many commitments and many things from the East in order to meet the requirements of his people. This has made it difficult for him to stay independent of the Soviet system but he has, nonetheless, lived up strictly to the commitments made to our corporation and its associates.

Had there been more unity in the North Atlantic Community in terms of overall system objectives I doubt that the important current question of whether Guinea can remain independent would have arisen. Our company believes that with the current more vigorous approach to the problem on the part of the United States government there is still real hope that Sekou Toure may maintain the independence of Guinea.

And now in closing may I refer to some thoughts of another which seem to me to summarize briefly and well the long term question as between the two world systems.

Last June, Senator Moss of Utah put in the Congressional Record a letter written by E. B. White of New Yorker and Harper fame. Mr. White quoted from an article of Salvador de Madariaga's in the New York Times magazine the previous October. I requote:

"The trouble today is that the Communist world understands unity but not liberty, while the free world understands liberty and not unity. Eventual victory may be won by the first of the two sides to achieve the synthesis of both liberty and unity" end quote.

I am not so much of an optimist that I see the whole free world including the new states, joining in a federation to achieve that unity. However, in view of the remarkable progress toward this unity in Western Europe in the fifteen years since World War II, it may indeed be possible that the North Atlantic Community in the next fifteen years will achieve such a federation. If it does, this would give the firm base for an overall free world system at least which would be enabled to meet other difficult adjustments, economic and political, which the free world needs to make in order to win the competition with the Soviet system.

Chairman Khrushchev deeply believes that his system will win world domination - and the system managers work continually to achieve it. While we do not want world domination, we do want our system to prevail since it gives to men everywhere the hope of life, liberty and the pursuit of happiness.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service
Institute of Home Economics

EFFECTS OF CHANGING INCOMES ON FAMILY SPENDING IN A LOW-INCOME AREA

By Jean L. Pennock, Household Economics Research Division

The Rural Development Program has led to a concentration of research in and around the so-called "pilot counties" in the Program and so has produced a pool of data concerning these counties that permits analyses not possible from the single projects. This paper presents one such analysis.

In the early phases of the Program, the Farm Economics Research Division of the ARS made a survey in a low-income area in East Texas to determine the manpower and farm capital resources of families in the open country. The data collected included income in the year 1955. The Household Economics Research Division of the ARS subsequently made a study of family expenditures and consumption in some of the same counties 1/ and obtained data on income for the year 1958. Since 136 families contributed schedules to both studies, it has been possible to examine some of the patterns in which income changes occur and to investigate the effects of changing income over the 3-year period on family spending patterns in 1958. 2/

The findings from this comparison over time cannot be taken to apply to other population groups, nor even to the larger population of which these 136 families are a part. The fact that none of these families moved within a period of approximately 3 years puts them in a class apart, since mobility is one of the characteristics of our present culture. They differed from the whole body of respondents to the HERD survey in being older and smaller and a larger proportion were nonwhite. Proportionately more of this subsample were completely dependent on nonfarm sources of income and their average income in 1958 was slightly lower than in the whole sample.

The changes reported here cannot be attributed to the Rural Development Program without a much closer scrutiny of income change in this group and elsewhere in the economy than is undertaken here. During the period between these surveys, there was a rise in income level throughout the economy. The Current Population Surveys of the Bureau of the Census

1/ Anderson, Nacogdoches, Rusk, and Smith Counties.

2/ The data presented here on the occurrence of income change are preliminary findings from an analysis to be published later by the present author and John H. Southern, Agricultural Economist, Farm Economics Research Division, ARS.

indicate that for the country as a whole, there was a rise in the incomes of rural families, both farm and nonfarm, and the per capita income estimates of the Department of Commerce show that Texas participated in this rise.

It should also be recognized that the measurements of changes reported here are far from precise. The schedules used in the two surveys were not identical in the questions on income (although they permit the computation of income on a closely comparable basis). The focus of interest in the two studies was different. In the first the emphasis was on the farm business and the resources used in production, in the second attention was centered on family living. The interviewers in the first study were men and they usually interviewed the male head of the family, in the second survey they were women and spent the greatest part of the interview with the wife, frequently seeing the husband only for information the wife did not feel competent to give. As a result, it is probable that some of the differences presented are the result of reporting errors. No measure of the error these factors have introduced is possible, but that there is some error of this nature can be illustrated by the reporting of the age of the head and his wife on the two schedules. If age was reported accurately in both interviews in all cases, there would be a difference of 3 years in most cases and of only 2 years for a relative few (because of the relationship of birthdates to the time of the interviews which were made at different periods of the year). 3/ The inconsistencies in the reporting of age after allowance is made for the passage of 3 years, are reported in table 1.

Table 1.--Disagreement in reporting of age in two surveys in a low-income area in Texas, 1955 and 1958

(First report assumed to be correct; data shown are differences in reports adjusted by addition of 3 years)

Error in years	Age of head		Age of wife	
	Overstated	Understated	Overstated	Understated
	Percent	Percent	Percent	Percent
0	(1/) 52.6		(1/) 57.8	
1	13.3	18.5	9.6	15.6
2	3.7	3.7	6.7	6.7
3	0	1.5	0	0
4	2.2	.7	.7	0
5	0	.7	0	2.2
6 or more	2.2	.7	0	.7

1/ Both statements in agreement when adjusted for passage of time.

3/ Matching of the schedules was made on the name of the head and the location of the dwelling. No check was made on the name of the wife and it is possible that the wife at the time of the second interview was not the same person as at the time of the first interview.

Between 1955 and 1958 the income ^{4/} level of this group of 136 families showed a substantial advance, averaging almost 20 percent. In the earlier year the average income reported was \$2,266 and 30 percent of the families reported incomes under \$1,000. In the later year the average had risen to \$2,683 and only 15 percent had incomes below \$1,000.

Composition of the income-change groups

Although as a group these families made gains over the 3-year period, there was movement both up and down the income scale. In 1958, 57 percent of the families reported incomes 10 percent or more higher than in 1955. The increase was between 10 and 49 percent for 24 percent of the families and 50 percent or more for another 33 percent. Incomes in 1958 within 10 percent (plus or minus) of the 1955 amount (hereafter referred to as "stable") were reported by 21 percent of the families and decreases of 10 percent or more by 23 percent (table 2).

Those low on the income scale in 1955 reported increases proportionately more frequently than those who were better off. Of those with incomes below \$1,000 in the earlier year, 78 percent reported some increase and 66 percent reported an increase of 50 percent or more. In the next interval, families with incomes of \$1,000 to \$2,000 in 1955, 63 percent reported some increase and 30 percent increases of 50 percent or more. At the top of the income scale a slightly larger proportion of families with incomes of \$3,000 and over in 1955 reported decreases than increases--33 percent as compared with 31 percent, and only 2 percent reported increases of 50 percent or more.

Families dependent wholly or in part on farming reported income changes proportionately more frequently than those whose incomes came from nonfarm sources. This relationship reflects at least in part the greater variability of farm income and is not necessarily an indication of a trend within the group. A slightly larger proportion of those who had some farm income in 1958 than of those completely dependent on nonfarm sources reported an increase--60 percent as compared with 53 percent.

There was some tendency for more families to report some employment off their own farm in 1958 than in 1955. This was particularly noticeable in the employment of wives outside agriculture and children ^{5/} on other farms. The former rose 4 percentage points from 18 percent, the latter 3 percentage points from 3 percent. In contrast to this trend, slightly fewer heads reported employment outside agriculture; in 1958 the proportion stood at 52 percent. The proportions of heads and wives reporting work on other farms in 1958 was larger among families whose incomes increased over the 3-year period than among those with stable or decreasing income. The proportion of heads and wives working outside agriculture also was greater in families with increasing incomes.

^{4/} Income reported in this paper is cash family income before payment of personal taxes.

^{5/} Sons and daughters who were members of the economic family, regardless of age or marital status.

The proportion of families having income in the form of retirement benefits, public assistance, and support from individuals outside the economic family rose from 30 to 38 percent. In both years it was highest among families who reported an increase in income over the 3-year period. Investment income, on the other hand, was reported by fewer families in 1958 than in 1955. The decline was mostly among families that reported an income increase.

Almost a fifth of the heads of the subsample families were reported to be physically handicapped in 1955. Relatively more of this group than of families with heads without handicaps had income increases--64 percent as compared with 48 percent--and relatively fewer had decreases--12 percent as compared with 27 percent.

Nonwhite families reported a slightly higher proportion of decreases than did white families and a slightly smaller proportion of increases. The proportion of nonwhites that maintained a stable income was also slightly higher.

Families in which the head had not completed grade school 6/ had proportionately more decreases--28 percent as compared to 16 percent--than families in which the head had at least completed grade school. Too few heads in this subsample completed high school to permit generalizations about this group.

Proportionately more of the families that decreased in size over the 3-year period also had decreases in income, but even in this group 33 percent had some increase. Among families stable as to size 62 percent reported increases and among those that increased in size 64 percent also had income increases.

Small families (2 or 3 persons in 1958) were more likely to have suffered decreases in income than larger families, but about as likely to enjoy increases. Of the small families, 25 percent reported decreases and 57 percent increases, while 18 percent of families of 4 or more persons reported decreases and 55 percent increases.

Age of the head appears to have had very little effect on changes in income. Moreover, such changes as occurred will come as a surprise to those of us who are familiar with the usual income distributions by age which show a more or less steady decline in income beginning in middle age. In this group of families, those whose heads were 60 years of age or more in 1958 reported proportionately more increases in income than families with heads below 60 years of age. Fewest decreases proportionately were reported by families with heads under 40 years of age. These young families included the largest proportion with stable incomes while the oldest families had the smallest stable group.

6/ Classified on the basis of the 1958 reports.

The dynamics of income change

Any number of groupings are possible to study the changes that occurred among these 136 families. Because of the role of agriculture in low-income areas and the efforts to introduce off-farm employment in these areas, the degree of dependence on agriculture has been made the primary sort in this analysis. And since the aging population typical of low-income areas has been recognized as one of these areas' peculiar problems, families with heads 60 years of age and over have been distinguished from the younger families.

In 1955, 76 percent of the group of families reported on here were dependent on agriculture in greater or lesser degree; in 1958, only 58 percent drew some income from agriculture. Of those who were in agriculture in 1955, 28 percent had moved out by 1958 (table 3). The movement in was considerably smaller; 29 families went out, 4 moved in.

All the families that left agriculture had had one foot in each camp in 1955; in that year they had drawn at least half their income from nonagricultural sources. Almost half of this group reported higher incomes in 1958 than in 1955. There were 6 families with heads 60 years of age or more in 1958 who reported higher incomes. These 6 represented about one-fifth of the total group moving out of agriculture and almost half of those who left and subsequently had higher incomes. Retirement income, OASI, pensions, and public assistance received in 1958 but not in 1955 or received in greater amounts in 1958 was the most important factor in these increases. Among families with heads under 60 years of age, increased employment of the head provided more income than had previously been obtained from farming in two-thirds of the cases. Employment of the wife or children was also a factor of some importance.

About a fourth of the families that left agriculture had less income in 1958 than in 1955. In this group about one-third had heads 60 years of age or over. Among them, loss of off-farm employment or decreased earnings from this source caused this decline as their farms had operated at a loss in 1955. The majority of these families were receiving retirement income in 1958 but not in amounts sufficient to offset the loss of earnings. The younger families that left agriculture had also operated their farms at a loss in 1955. All of them reported decreased earnings of the head and decreased earnings of children were also a factor with some.

Only 4 of this group of 136 families had income from farming in 1958 and not in 1955. Of these, 3 reported increases in income and the income of the fourth was stable. In all cases their 1958 income from farming was quite small--not an important factor in explaining the increases reported. These families reported more earnings by the head or more income of the retirement type.

Eight families that were farming in 1955 reported increased dependence on farming in 1958. 7/ Of these, three-fourths had higher incomes in 1958 than in 1955 and reported substantial gains in farm income. Half of the group, 4 of the 8, reporting increased dependency on agriculture and an increase in income had heads over 60 years of age.

Fourteen families who had some farm income in 1955 reported a decreased dependency on agriculture in 1958. More than half of these were older families. In all cases of these older families farm income fell off substantially but with most retirement income was an important factor so that more of this older group reported an overall gain in income. In the younger group reporting a decreased dependency on agriculture, decreases in farm income were also fairly general. Increased income from employment also was reported by almost all. Usually this was from employment of the head but in some instances employment of the wife or children also entered in.

In this group of families who reported on income in the two surveys those whose incomes maintained the same ratios between farm and nonfarm sources in the two periods considerably outnumbered those whose income relationship to agriculture shifted. This constant group can be subdivided into those within agriculture in both years and those outside agriculture in both years. The former were the larger group, comprising 52 families in all.

Maintaining the same degree of dependency on agriculture in the 2 years is not incompatible with a change in income level. About 55 percent of these families reported increases in income; 30 percent reported decreases.

About half of the families maintaining the same degree of dependency on agriculture but reporting an increase in income over the 3-year period, 15 in all, were headed by men 60 years of age or older. In 60 percent of these, farm income showed an increase. In 80 percent acquisition of or increase in retirement types of income was reported and almost half reported increase in employment or investment income. When family heads were under 60, the gain resulted from increased employment in almost all cases and by increases in farm income in about half.

Decreases in income were reported by 15 families that maintained the same degree of dependency on agriculture in the two periods. This group also divided fairly evenly on the basis of the age of the head. All families with heads 60 years of age or older reported decreases in farm

7/ Families were classified into three groups on the basis of the degree of their dependence on farming as follows:

Completely dependent on farming
51-99 percent farm income
1-49 percent farm income

Families are here considered to have increased their dependence on farming if they moved from a less dependent class to a more dependent one; changes within class have been disregarded.

income and these were usually accompanied by decreases in other types of income. Decreases in farm income were reported by all families with heads under 60 but decreases in employment income by relatively few.

The final group to be considered here, those who drew no income from agriculture in either 1955 or 1958, comprised 28 families. Of them, somewhat more than half reported income increases, and twice as many had constant incomes as had decreases. This group had a smaller proportion of families with heads over 60 years of age than the other major groups. These older families were somewhat more likely to have had an increase in income than those with heads under 60; two-thirds of them had higher incomes in 1958 than in 1955 but only slightly more than half the younger families. Retirement income was the major factor with almost all of the older families but a few also reported more wages and salary. Among the younger families with income increases, higher earnings by the head were usually responsible.

The nonfarm group whose income decreased over the 3-year period included only four families. Loss of earnings by other family members or loss of other types of income was responsible; in all cases the head's employment increased.

The pattern of adjustment to income change

Data from the two surveys also make possible some insight into the way in which families adjust to change in income. Two groups can be constructed comparable in income and some other characteristics but differing in the direction in which their income has been moving. These standardized groups can be compared as to spending patterns. However, since only 136 families responded twice in these surveys, it has been impossible to hold more than two characteristics constant at one time. The data have first been standardized on income level and source of income (table 4). In this standardization there is considerable difference between families with decreasing incomes and those with increasing incomes as to age of head and a smaller difference as to family size. A second standardization was done, therefore, substituting age of head for source of income as a sort. With the resulting loss of control in the proportion of farm and nonfarm families in the two groups, divergence in expenditures for foods and housing is introduced. 8/ In the second comparison these categories have consequently been omitted from the distribution of expenditures and all conclusions concerning them are drawn from table 4.

An examination of the distributions of expenditures among families comparable except as to movement of income indicates that the various categories of family spending respond to change at different rates. If families adjusted immediately to their current income positions, the spending patterns of groups of families similar in other respects than the direction of income change would be the same. Such is not the case, however.

8/ In expenditure studies such as this, it is customary to assign only repairs to the farm home and insurance on it to family expenditures, allowing farm expenditures to carry taxes and mortgage payments or rent, but rent or the expenses of ownership of nonfarm homes appear in family expenditures.

The categories of family living expenditures fall into two classes--those in which adjustments appear first, and those more resistant to change. The first group includes those categories which families select to cut back on when their income falls and on which they may spend windfall or temporary income. It includes some of the categories most subject to fluctuations. When income drops, these categories take a smaller proportion of total spending. The second group might be described as the categories more basic to the standard of living. They represent more deeply ingrained spending habits. When income drops, families at first resist cutting back on these categories; the level of spending is maintained and they take a larger proportion of the total. When income rises, the level of spending for these categories is raised more slowly and they consequently take a smaller proportion of the total in the early phases of the adjustment period.

The categories that resist adjustment to change are principally food, household operation, and medical care. Of these categories, household operation shows this tendency to resist adjustment in both standardizations presented here (tables 4 and 5). Because the families with increasing incomes tended to be considerably older than those with decreasing incomes, medical care, which generally requires higher expenditures among older families, does not decline proportionately in the standardization by income level and source of income, but does in that by income level and age of head.

The categories that take the impact of income change most immediately are housing, ^{9/} transportation, reading and education, and, to a minor extent, clothing, and furnishings and equipment. In the standardization by income level and source of income, housing and furnishings and equipment show a clear tendency to take a larger part of total spending when income is rising than when it is falling. Because in the rising income group there is a greater proportion of older families, who own fewer cars and keep them longer, the tendency for transportation to take a larger part of expenditures is concealed. Holding age of head constant reveals that it responds to a change in income level.

From these observations on the pattern in which families respond to change in income, some conclusions can be drawn as to the short-run outlook for family living expenditures in low-income areas. If the income level in these areas is raised, an immediate increase in spending on housing, furnishings and equipment, transportation, and clothing can be expected. This would be followed by slower adjustments in spending for food, household operation, and medical care.

^{9/} It was mentioned earlier that all 136 families remained in the same dwellings throughout the period. The differences between the change groups in expenditures for housing arise, therefore, from expenditures for such items as repairs and renovations.

Table 2.--Distribution by direction of income change and selected family characteristics for 136 families reporting in surveys covering 1955 and 1958, in a low-income area in Texas

Family characteristics	All families	Movement of income, 1955 to 1958			
		Decrease of 10 percent or more	Less than 10 percent change	Increase of 10-49 percent	Increase of 50 percent or more
		Number	Percent	Percent	Percent
All families	136	22.8	20.6	23.5	33.1
Color:					
White	100	22.0	20.0	26.0	32.0
Nonwhite	36	25.0	22.2	16.7	36.1
Age of head: 1/					
Under 40 years	21	19.0	28.6	23.8	28.6
40-59 years	58	24.1	24.1	22.4	29.3
60 years and over	57	22.8	14.0	24.6	38.6
Family size in 1958:					
2 or 3 persons	87	25.3	17.2	25.3	32.2
4 or more persons	49	18.4	26.5	20.4	34.7
Direction of change in family size:					
Decreased	27	37.0	29.6	18.5	14.8
No change	95	20.0	17.9	24.2	37.9
Increased	14	14.3	21.4	28.6	35.7
Education of head: 1/					
Less than 8 years	57	28.1	17.5	19.3	35.1
8-11 years	55	16.4	23.6	25.5	34.5
12 years and over	22	22.7	22.7	27.3	27.3
Not ascertained	2	50.0	--	50.0	--
Physical status of head:					
Handicapped	25	12.0	24.0	20.0	44.0
Not handicapped	88	27.3	25.0	21.6	26.1
Not ascertained	23	17.4	0	34.8	47.8
1955 income: 2/					
Under \$1,000	41	17.1	4.9	12.2	65.9
\$1,000-\$1,999	27	14.8	22.2	33.3	29.6
\$2,000-\$2,999	26	23.1	19.2	23.1	34.6
\$3,000-\$4,999	28	39.3	32.1	25.0	3.6
\$5,000 and over	14	21.4	42.9	35.7	0
1958 income: 2/					
Under \$1,000	21	52.4	0	4.8	42.9
\$1,000-\$1,999	38	26.3	18.4	26.3	28.9
\$2,000-\$2,999	22	22.7	22.7	27.3	27.3
\$3,000-\$4,999	34	11.8	20.6	20.6	47.1
\$5,000 and over	19	5.3	36.8	42.1	15.8
Not ascertained	2	0	100.0	0	0

See footnotes at end of table.

Table 2.--Distribution by direction of income change and selected family characteristics for 136 families reporting in surveys covering 1955 and 1958, in a low-income area in Texas--continued

Family characteristics	All families	Movement of income, 1955 to 1958			
		Decrease of 10 percent or more	Less than 10 percent change	Increase of 10-49 percent	Increase of 50 percent or more
		Number	Percent	Percent	Percent
1955 income source:					
51-100 percent farm	23	34.8	8.7	8.7	47.8
1-49 percent farm	81	23.5	21.0	22.2	33.3
100 percent nonfarm	32	12.5	28.1	37.5	21.9
1958 income source:					
51-100 percent farm	15	33.3	13.3	13.3	40.0
1-49 percent farm	63	23.8	14.3	22.2	39.7
100 percent nonfarm	57	19.3	28.1	28.1	24.6
Not ascertained	1	0	100.0	0	0
Other sources of income:					
Work on other farms by--					
Head in 1955	11	18.2	18.2	18.2	45.5
Head in 1958	14	21.4	14.3	35.7	28.6
Wife in 1955	6	16.7	0	0	83.3
Wife in 1958	9	11.1	33.3	11.1	44.4
Children in 1955	4	50.0	0	0	50.0
Children in 1958	8	12.5	25.0	0	62.5
Other wages and salaries by--					
Head in 1955	74	25.7	27.0	25.7	21.6
Head in 1958	71	19.7	26.8	28.2	25.4
Wife in 1955	24	8.3	29.2	33.3	29.2
Wife in 1958	30	23.3	23.3	20.0	33.3
Children in 1955	11	45.5	27.3	9.1	18.2
Children in 1958	13	15.4	15.4	23.1	46.2
Investment income 3/:					
In 1955	49	30.6	8.2	16.3	44.9
In 1958	43	32.6	18.6	18.6	30.2
Retirement income 4/:					
In 1955	41	17.1	19.5	24.4	39.0
In 1958	51	19.6	19.6	21.6	39.2

NOTE: Percentages may not add to 100 due to rounding.

1/ As reported in survey covering 1958.

2/ Cash income before personal taxes.

3/ Rents, royalties, dividends, interest.

4/ Retirement benefits, public assistance, support from individuals outside the economic family.

Source: Unpublished data from U. S. Department of Agriculture, Divisions of Household Economics Research and Farm Economics Research, ARS.

Table 3.--Distribution of families by direction of income change, change in source of income and age of head, 136 families reporting in surveys covering 1955 and 1958, in a low-income area in Texas

Income source change and age class	All families 1/	Movement of income, 1955 and 1958		
		Decrease of 10 percent or more	Less than 10 percent change	Increase of 10 percent or more
	Number	Percent	Percent	Percent
All families 1/	135	23.0	20.0	57.0
Families moving out of agriculture	29	24.1	27.6	48.3
Head under 60 years	19	26.3	31.6	42.1
Head 60 years and over	10	24.0	20.0	60.0
Families moving into agriculture	4	0	25.0	75.0
Families increasing dependence on agriculture	8	12.5	12.5	75.0
Head under 60 years	4	0	25.0	75.0
Head 60 years and over	4	25.0	0	75.0
Families decreasing dependence on agriculture	14	28.6	7.1	64.3
Head under 60 years	6	33.3	0	66.7
Head 60 years and over	8	25.0	12.5	62.5
Families maintaining same degree of dependence on agriculture	52	28.8	15.4	55.8
Head under 60 years	27	29.6	18.5	51.9
Head 60 years and over	25	28.0	12.0	60.0
Families not in agriculture in either year	28	14.3	28.6	57.1
Head under 60 years	19	15.8	31.6	52.6
Head 60 years and over	9	11.1	22.2	66.7

NOTE: Percentages may not add to 100 due to rounding.

1/ One family omitted from this table because of insufficient data.

Source: Unpublished data from U. S. Department of Agriculture, Divisions of Household Economics Research and Farm Economics Research, ARS.

Table 4.--Distribution of family expenditures by direction of income change, standardized on income level and source of income, low-income area in Texas, 1958

Category of family expenditure	Families with decreasing incomes		Families with increasing incomes	
	Dollars	Percent	Dollars	Percent
Total family living expenditures	2,832	100.0	2,457	100.0
Food and beverages	913	32.3	761	30.9
To be prepared at home	843	29.8	699	28.4
Away from home	59	2.1	54	2.2
Home production costs	11	.4	8	.3
Housing	93	3.3	100	4.1
Household operation	295	10.4	249	10.1
Housefurnishings and equipment	159	5.6	157	6.4
Clothing	321	11.3	284	11.6
Personal care	83	2.9	77	3.1
Medical care	248	8.8	266	10.8
Transportation	536	18.9	416	16.9
Recreation	67	2.4	60	2.4
Reading and education	25	.9	36	1.5
Tobacco	60	2.1	49	2.0
Miscellaneous	30	1.1	4	.2
Income (dollars)	2,400	--	2,663	--
Family size (persons)	3.6	--	3.2	--
Age of head (years)	54.9	--	58.5	--

NOTE: Components may not add to totals because of rounding.

Source: Unpublished data from U. S. Department of Agriculture, Divisions of Household Economics Research and Farm Economics Research, ARS.

Table 5.--Distribution of family expenditures by direction of income change, standardized on income level and age of head, low-income area in Texas, 1958

Category of family expenditure	Families with decreasing incomes		Families with increasing incomes	
	Dollars	Percent	Dollars	Percent
Total family expenditures	2,496	--	2,311	--
Total family expenditures less food and beverages and housing	1,545	100.0	1,450	100.0
Food and beverages	951	--	759	--
To be prepared at home	892	--	696	--
Away from home	50	--	58	--
Home production costs	9	--	5	--
Housing	94	--	102	--
Household operation	283	19.5	221	15.2
Housefurnishings and equipment	176	12.1	139	9.6
Clothing	271	18.7	269	18.6
Personal care	82	5.7	71	4.9
Medical care	214	14.7	198	13.7
Transportation	279	19.2	403	27.8
Recreation	61	4.2	58	4.0
Reading and education	25	1.7	37	2.6
Tobacco	52	3.6	53	3.7
Miscellaneous	6	.4	2	.1
Income (dollars)	2,007	--	2,434	--
Family size (persons)	3.4	--	3.1	--
Age of head (years)	57.5	--	56.3	--

NOTE: Components may not add to totals because of rounding.

Source: Unpublished data from U. S. Department of Agriculture, Divisions of Household Economics Research and Farm Economics Research, ARS.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service
Institute of Home Economics

THE FARMER AND SOCIAL SECURITY

By James Cowhig and Sheridan Maitland, Farm Population and Rural Life Branch, Agricultural Marketing Service

This year marks the 25th anniversary of the Social Security Act and the 10th anniversary of the beginning of the coverage of farm people, when a few hundred thousand regular farm workers were included under the social insurance provisions of the Act. At the present time, the earnings of almost 2 million farm workers and about $2\frac{1}{2}$ million farmers are reported annually for credit under the old-age, survivors, and disability insurance program. These anniversaries make a discussion of the impact of the social insurance program on farmers and farm laborers particularly appropriate at this time.

Our discussion must necessarily be a general one. We shall briefly describe the program and trace the legislative changes which have included persons in farm occupations under the Old-Age, Survivors, and Disability Insurance Program provisions of the Social Security Act. Second, we shall present some recent information on the participation of farm operators and farm workers in OASDI, and finally we shall use some results of a series of research studies to illustrate the impact of the program on farm operators and their families.

The purpose of the old-age, survivors, and disability insurance program is to provide benefits which will replace, in part, earnings from work covered by the program when those earnings are cut off by retirement, disability, or death. The right to social security benefits is acquired as a result of covered work, and benefit amounts are related to average earnings. During their working years, workers and self-employed persons who are protected under the program, and employers of covered workers, pay for the benefit which the program provides when earnings are cut off by retirement, disability, or death.

The past quarter century has seen more rapid and far-reaching social and economic changes than any other 25-year period in our history. One of the most important pieces of social legislation of this period was the passage of the Social Security Act in 1935. At present, there is little debate over the desirability of such a program of social insurance. The major concern is how best to extend and expand the program. 1/

1/ Our discussion leans heavily on the Anniversary Issue of: Social Security Bulletin. Vol. 23, Number 8. August 1960. In addition to articles on various aspects of the Social Security Program, the issue contains a chronology of significant events from 1935-60.

The social insurance provisions of the Act were applied first only to wage and salary workers in nonagricultural industries. Not only did these workers comprise the largest segment of the work force, but problems of administration were less formidable in industries with a relatively small number of units which employed a large number of workers. In addition, regularity of employment and the presence of an established accounting system for recording the wages of individual workers simplified the wage reporting and tax collection problems. This approach also offered the advantage of providing administrative and actuarial experience with the less complicated industrial and business employments before the coverage of farm occupations was undertaken.

It was not until 1950 that some "regular" farm laborers were covered by old-age, survivors, and disability insurance; farm operators and additional hired workers were not covered until 1955. These amendments covered most individuals who depend on farm employment for a living.

The mobility of the hired farm worker and the seasonal fluctuation in labor requirements are two factors which have made difficult the successful implementation of a complex wage-related social insurance program. The successful administration of the program depends upon adequate records of wages and net earnings. The five years of experience with the coverage of self-employed persons in other occupations was very helpful in establishing procedures for the coverage of self-employed farm operators. In 1956, another amendment made it possible for farm landlords to secure the protection of the social insurance program under certain conditions.^{2/} Owing to the limitation of time, we cannot discuss here the details of these amendments, but we can describe the present requirements for the coverage of farmers and farm laborers under old-age, survivors, and disability insurance.

At the present time (1960) the maximum amount of wages and self-employment earnings to be reported by a farmer or nonfarm person for social security purposes is \$4,800. Previous maximums were \$3,000, \$3,600, and \$4,200. Recent suggestions would increase the maximum to \$6,000 or more.

The increases in the maximum amount of earnings to be reported are attempts to allow for increases in price and income levels. The amount of the monthly benefits paid under the program has increased several times since the enactment of the original law.

The social security tax in the early days of the program was relatively small, as it was designed to provide only a contingency reserve in the trust fund. With the increases in the number of persons entitled to benefits, the inclusion of additional benefits such as the disability

2/ The landlord must "materially participate" in the actual production activities of the rented farm or in the management of these production activities in order for the rental income to be considered as covered earnings from farm self-employment for social security purposes.

benefits, and the gradual maturing of the program to the point where most covered workers pay taxes throughout their entire working lifetime, adjustments have been made in the social security tax rate to insure the program's continued actuarial and financial soundness. At the present time, the self-employed pay a $4\frac{1}{2}$ percent tax on their earnings. Employers and employees each contribute 3 percent of the worker's wages.

Individuals with less than \$400 of self-employment earnings are not covered under the old-age, survivors, and disability insurance program.

When Congress provided for the coverage of farm self-employment income, allowance was made for the late entry of farmers into the old-age, survivors, and disability insurance program by specifying that up to 5 years of low or no earnings could be eliminated in computing the average earnings on which benefits are based. Optional income computation methods were also provided. These options 3/ permit farmers to get social security credit for as much as \$1,200 (based on two-thirds of gross income), even for years in which they have no net earnings whatever. When their actual net earnings exceed \$1,200, they, like other self-employed persons, get credit for the full amount of their earnings up to \$4,800. This option is of particular importance to the low-income farm operator.

Farm laborers who are paid \$150 or more in cash wages by an employer or who work for an employer for 20 or more days in a calendar year and are paid on a time basis (per hour, day, or week) are covered under the old-age, survivors, and disability insurance program. Beginning January 1, 1957 crew leaders who pay the workers their wages are usually considered as employers of the crew members unless a written agreement with the farmer specified that the crew leader is an employee of the farmer. This provision was designed to provide a single employer for crew members who receive a small amount of wages for short periods of work on a number of different farms and who otherwise would not be covered under the old-age, survivors, and disability insurance program.

The \$4,800 maximum on taxable earnings (farm and nonfarm) permits most farmers and farm laborers to receive social security credit for all or a substantial part of their earnings. In 1956, the latest year for

3/ Under the options now in effect, a farmer whose annual gross farm income is at least \$600 but not more than \$1,800 may report for social security purposes either his actual net earnings (if they are \$400 or more) or two-thirds of his gross farm income. If his gross income is more than \$1,800, the farmer must compute his actual net earnings (gross receipts less expenses); if these net earnings are less than \$1,200 he may report for social security purposes either his actual net earnings (if they are \$400 or more) or presumed net earnings of \$1,200. The decision concerning the method of computing net earnings to be reported for social security purposes is made each year at the time the tax return is being prepared. The optional method is not available for any other self-employed group.

which such data have been published 4/, 2,550,000 farm operators paid social security taxes on self-employment earnings averaging \$1,830 for that year. The largest average, \$2,470, was reported from California; the smallest, \$1,220, from Tennessee. In the same year, social security taxes were paid on an average annual farm wage of \$850 for 1,920,000 farm laborers. The largest average, \$1,890, was reported from Hawaii; the smallest, \$515, from Maine. 5/

The number of farm operators paying social security taxes was about 51 percent of the total number of farms in 1956 (as estimated by AMS), and about 68 percent of the commercial farms enumerated in the 1954 Census of Agriculture. Many of the nonreporting farm operators did not have the \$400 net earnings required for coverage under the old-age, survivors, and disability insurance program; others had wages equal to the maximum taxable earnings to be reported, hence did not report any self-employment earnings. Some, for reasons unknown, did not file a social security tax return.

While the definition of agricultural labor in the Social Security Act is broader than that used in reports of the U. S. Department of Agriculture, the published data of the Department indicate that about half of all persons who worked for farm wages during 1956 did not receive the minimum amount of cash wages required for coverage under the program. In 1956, as previously indicated, the average taxable wage for hired farm workers was \$850, well below the maximum of \$4,800. A more recent estimate indicates that, in 1959, fewer than 2 percent of all hired farm workers with at least 25 days of farm wage work earned \$4,800 or more from both farm and nonfarm employment. 6/ About two-thirds (65 percent) of these workers earned less than \$1,000 from farm and nonfarm employment. 7/ About 1.4 million persons worked less than 25 days at farm wage work in 1959. These short-term workers averaged only \$471 from all types of employment in 1959, and only a very small proportion qualified for OASDI coverage from farm employment. Since eventual benefits are closely related to the earnings reported for social security purposes, the low earnings of covered farm wage workers places them at a relative disadvantage compared to the average factory worker who earned wages of \$4,652 in 1959. 8/

4/ Farm Coverage Statistics, U. S. Department of Health, Education, and Welfare, Social Security Administration. BOASI December 1959, Table 1, page 1.

5/ In 1956, persons who were paid \$100 or more in cash farm wages from one employer were subject to the OASDI tax.

6/ Preliminary data taken from tabulations for The Hired Farm Working of 1959. These, and related data, are to be published as an Agriculture Information Bulletin early in 1961.

7/ Ibid.

8/ See: Farm Income Situation, FIS-179. July 1960. Table 8H, page 39.

The economic position of farm operators is better than that of hired farm workers. In 1959, the average net cash income of farm operators was about \$1,600, an amount that would mean substantially higher earnings reported by the self-employed farm operator and therefore higher eventual benefits. ^{9/} Even so, the farmers' average net earnings reported to OASDI are considerably less than that of the average factory worker.

Despite the differences in definitions and concepts involved in these comparisons, it seems safe to say that most farm laborers with more than a casual attachment to the farm labor market are covered by OASDI. It is also clear that a substantial proportion of farm operators covered under the program filed social security tax returns and paid OASDI taxes.

Between 1951 and 1954, when the extension of OASDI to farm operators was being considered, AMS in cooperation with State Agricultural Experiment Stations surveyed farm operators and farm workers in selected farming areas in four States. ^{10/} The purpose of the research was to determine the economic position of the farm operator, his retirement prospects, and his attitudes toward the extension of OASDI coverage to farmers and to farm laborers.

More than 80 percent of farm operators in each survey area approved of the existing OASI Program, and a substantial majority of all those who expressed an opinion favored the inclusion of farm operators in the program. The majority of both operators and regular hired workers agreed that coverage should also be extended to the regular hired farm worker.

In view of the wide range of economic and social conditions in the four areas, this consensus is particularly impressive. It suggests, we believe, that farmers were not resistant to the idea of OASDI coverage, an attitude attributed to them by some. These favorable attitudes are understandable in the light of survey results which showed that most farmers lacked the economic resources to provide adequately for their old age or, in the event of their death, to provide for their survivors. The position of farm laborers is much less advantageous than that of farm operators; the farm laborers' favorable attitudes toward OASDI were probably influenced by this fact.

^{9/} Data from: The Farm Income Situation, FIS-179. July 1960. AMS, USDA. Table 9H, page 40. This figure includes all sources of cash income, including nonemployment sources. In 1956, net cash income per farm operator averaged \$1,776, quite similar to the \$1,830 on which the average farm operator paid OASDI taxes.

^{10/} Surveys were conducted in Connecticut and Wisconsin in 1951, in Texas in 1952, and in Kentucky in 1954. A summary of the results of these studies is contained in: The Farmer and Old Age Security. Agricultural Information Bulletin, 151. AMS, USDA. December 1955.

There is no conclusive information on farmers' attitudes toward the social security program at the time OASDI was initiated, but the evidence is clear that in the early 1950's farmers were receptive to the extension of the program. 11/

These early studies formed part of the basis for USDA support of the 1954 amendments to the Social Security Act. 12/

In the past five years additional research has been conducted in selected areas of seven States, in order to determine the effect of the 1954 amendments on farm operators and their farming arrangements. 13/ Particular interest was paid to farmers' knowledge of the program, their participation in it, their opinions about it, and the role of OASDI in their retirement plans.

Knowledge of the program is particularly important for self-employed farm operators. The law is not simple, and it has been frequently amended and extended. Unlike the employee, whose wages are reported by his employer, a self-employed person must know enough about the law to comply with the reporting and tax provisions.

The attitudes toward the program also may influence participation. For example, the decision concerning the option to be used in calculating net income will be influenced by the farmers' attitudes about the program.

At the risk of over-simplification, we shall indicate some of the more important generalizations derived from these surveys.

11/ A 1937 national survey showed that 73 percent of the population approved of OASI. See: Morris Janowitz. "Public Perspectives on Social Security." Social Work. Vol. 1, No. 3, July 1956. pp. 94-101.

12/ See the statement of True D. Morse, Under Secretary of Agriculture, before the House Committee on Ways and Means, April 6, 1954.

13/ These research studies are reported in the following publications: Ploch, Louis A. and Ducoff, Louis J. "Old Age and Survivors Insurance Program." Maine Agr. Exp. Sta. Mimeo Report No. 69, 1957; Skrabaneck, R. L., Keel, Lloyd S., and Ducoff, Louis J. "Texas Farmers and Old Age and Survivors Insurance." Texas Agr. Exp. Sta. Bul. 886, 1958; Christiansen, John R., Coughenour, C. Milton, Ducoff, Louis J., and Coleman, A. Lee. "Social Security and the Farmer in Kentucky." Ky. Agr. Exp. Sta. Bul. 654, 1958; and Bauder, Ward, "Iowa Farm Operators' and Farm Landlords' Knowledge of, Participation in, and Acceptance of the Old Age and Survivors Insurance Program." Iowa Agr. and Home Economics Exp. Sta. Res. Bul. 479, June 1960. Related cooperative studies have been completed in Oklahoma, North Carolina, and Minnesota and the results are to appear in publications of the respective Agricultural Experiment Stations.

1. Considerable variation in knowledge about the program was found. These variations were related to differences in economic status, formal education, and personal experience with the program. ^{14/} Farmers in more prosperous areas were generally better informed than those in low-income counties surveyed.

2. In each survey, about 90 percent of the farmers interviewed had Social Security cards--an indication of the prevalence of some non-farm employment among farm operators.

3. The proportion of all farm operators in the survey who paid Social Security taxes on farm income varied from about 90 percent in a high-income area to about 30 percent in a low-income area.

4. The proportion of farm operators who met the coverage requirements and should have paid the tax, but did not, varied from about 9 percent in a high-income area to 30 percent in a low-income area.

5. Opinions of the program as expressed by a majority of persons interviewed were favorable--from 80 to more than 90 percent of farm operators approved of the program.

6. The changes suggested most frequently were those which indicated a desire to see the program broadened and extended. For example, the change most often suggested was that the retirement age be lowered.

7. Farmers were best informed about the retirement aspects of OASDI, and less aware of the survivors and disability aspects of the program.

8. Few farm operators had made any changes in their farm arrangements in order to qualify for benefits or coverage, but most operators were counting on OASDI payments in retirement.

9. The great majority of farmers (from 82 to 90 percent in the various study areas) approved of OASDI coverage for regular farm workers.

10. The majority of farmers planned to continue farming after 65 years of age, but to do so on a reduced scale.

11. Retirement plans generally were based on the anticipation of some OASDI income, but the OASDI funds are viewed as supplementary to other financial resources.

^{14/} Results of a study in an urban area indicated that, ". . . the pragmatic education provided by contact with these (Social Security) agencies eliminated the disabilities derived from a lack of formal education among those in low social class positions" and that ". . . self-interest operates to overcome educational limitations." Morris Janowitz. op. cit. p. 98.

In summary: Most farmers approved of the OASDI Program and the coverage of farm operators and regular farm workers. Considering the relatively brief period during which the program had been in operation, knowledge of the details of the program relating to retirement benefits was high. The majority of the suggestions made for changes in the program involved liberalization of the program rather than curtailment. OASDI retirement benefits were viewed as supplemental to other income.

We certainly do not wish to give the impression that farm operators knew as much about the program as might be desirable, or that all administrative problems had been solved, or that no reservations about the program were expressed by the farmer.

The relatively low level of knowledge and concern about the survivors and disability aspects of OASDI among farm operators has already been mentioned. Accurate and widespread information about the entire program is important if the self-employed farm operator and his family are to derive maximum benefit from the program.

Most of the disadvantages of the program cited by farm operators involved provisions which they felt should be liberalized, e.g., higher benefit payments or a lower retirement age. There were, however, the inevitable complaints voiced against the "red tape" involved, and a perfectly understandable exception taken by some younger farmers to the provision which made possible at the beginning of the program the retirement of older operators with as few as six complete quarters of coverage. (At the present time, under the 1960 amendments, a 65-year-old farm operator needs 12 quarters of coverage to qualify for old-age insurance benefits.)

A certain degree of noncompliance is to be expected in any program and there is evidence that a small proportion of farm operators who should pay the tax do not now pay it.

It is obvious that OASDI benefit payments are of more importance for the low-income farmer than for other operators; it should also be obvious that it is this group which is hardest to reach with the necessary information and the one which has most difficulty in qualifying for coverage, and--because benefits are based on earnings--would receive lower benefits.

Now, what is the outlook?

First, we can be sure that an increasing proportion of farmers and farm laborers will attain an insured status under the program, and that Social Security benefits will become more and more important in making possible a degree of economic security in old age or disability for farm operators and in providing for their dependents. Even the minimum monthly benefit of \$33 may mean the difference between partial retirement and the necessity for full-time work.

To regular farm wage workers, who comprise the central core of the hired farm working force, OASDI has extended a retirement program that is almost universal for wage and salary workers in other industries.

There are also some probable future developments that should be given serious consideration, though we can mention these only briefly.

1. We have noted that about 20 years elapsed between the enactment of the Social Security Act and the extension of OASDI provisions to a substantial number of persons in farm occupations. Other types of social legislation such as unemployment compensation still do not apply to farm occupations. The U. S. Department of Labor recently initiated studies to explore the feasibility of unemployment compensation for farm wage workers, and legislation proposals have been made at various times for the extension of other social legislation to the farm wage worker. Of course, if other programs are coordinated with OASDI, farm operators and farm workers would be included, though perhaps on a more limited basis than other workers.

2. The addition of any form of economic or social benefit always enhances the status of an occupation. Farm operators may benefit from OASDI either by attaining coverage for the first time or by increasing their potential benefits through coverage in farm, as well as nonfarm, employment. The extension of OASDI coverage to hired farm workers probably will not attract workers to agriculture, but it has had the effect of reducing somewhat the disparity between the rewards of farm and nonfarm employment. At the very least, OASDI coverage permits the farm wage worker to share in the benefits enjoyed by workers in other occupations and to shift from nonfarm to farm employment without loss of coverage.

3. OASDI benefit payments to older farm operators--who comprise about 20 percent of all farm operators--not only provide a means of income maintenance for the family, but also may reduce the cost of local welfare programs. 15/

4. Research studies indicate that most farmers prefer to remain on their farm after they reach retirement age. The assurance of a minimum income helps to make this possible. OASDI benefit payments also reduce the dependence of the older farm operators on their children or other relatives. It is evident, too, that the knowledge that a farmer has earned the benefits he receives is of considerable psychological importance. These psychological consequences are not easy to assess precisely, but observers who have had personal experience with the important differences--both economic and psychological--generally agree that OASDI payments can make this aspect an important one.

15/ For a related discussion, see: John C. Ellickson. "Social Security for Farm Operators: Acceptance and Role in Farm Population Adjustment." Journal of Farm Economics. Vol. XL, No. 5, December 1958. pp. 1662-1670.

5. Perhaps the best advice for the future is contained in a recent statement by the Secretary of Health, Education, and Welfare: "Social Security is today an accepted part of our culture and an essential bulwark for our economy. . . . Much remains to be done We need to rethink and reformulate our Social Security goals for the future. Even to keep up with the social and economic changes that are clearly foreseeable will require a major effort." 16/ The farm population will be significantly affected by these future efforts.

16/ Social Security Bulletin. August 1960. op. cit., p. 1.

HOUSING AND HOUSEHOLD EQUIPMENT

OUTLOOK FOR 1961

By George G. Johnson
U. S. Department of Labor

Two years ago when I gave the outlook paper on housing, I mentioned the irregularity of the rate of housing construction during 1958. This year also shows abrupt changes in rate from month to month. After several brief but encouraging gains during 1960, September Commerce Department reports show a slump of 17 percent from August after allowance was made for seasonal change. It now appears that residential construction starts will total about the same as for 1958 but considerably below 1959. I should like to emphasize that this prediction and later comments are my own view and are not necessarily those of the Department of Labor.

Through the year, houses have not been selling readily and the market has become very competitive. The competition has been of benefit to consumers in that builders have been more progressive in marketing and construction ideas to make homes salable.

This year, medium-priced homes, selling from roughly \$15,000 to \$20,000, have commonly featured several new designs. Examples are inner courts enclosed on three or four sides, and patios accessible by glass doors from two or more rooms. Many of the changes lean toward a closer link between the inside of the house and the outdoors--and a more intelligent use of land contours and existing trees in both house design and landscaping.

The new houses are frequently a far cry from the rather austere and unimaginative small houses built a decade ago in large numbers to meet the postwar need. Now two bathrooms are common; dining rooms and large kitchens have once again come into their own. Appliances of many types are built in. Dishwashers, garbage disposers, centrally installed air conditioners, and home intercoms are frequently provided.

To help determine the outlook for 1961 in the production of new housing, we may look at factors behind the demand for housing and at current trends to try to identify the forces that cause them.

Houses are built in response to a demand for shelter which arises from new family formation, from increase in family size, and from improvement in the income and financial security of people of all ages. Their resources enable them to form new households or to improve their environments.

Demand For Housing

Any effort to predict the growth rate of housing should take account of the net increase in the number of households. This statistic tells us a great deal about the demand for housing. It includes the positive effect of new family formation and the increase in separate living arrangements (undoubling). The figure also includes the negative effects of mortality and family dissolution.

The rate of marriages has begun to increase slightly again after the post World War II low of 1958 and is now up about 2 percent above 1959. However, both 1958 and 1959 rates are the lowest since the depth of the depression in the thirties. 1/ The large proportion of children and teenagers below marriage age in the population depresses the rate, of course. Since average income is higher than ever for newly married couples, it is to be expected that most will plan to set up separate households. Of the 40 million married couples in 1960, only 2.4 percent did not maintain their own households as compared to 5.6 percent in 1950. 2/

The number of births is also declining slightly; during the first 6 months of 1960 it is about 2 percent under the same period last year. The downturn is assumed to be only temporary since there appears to be no evidence of a trend toward smaller families. 3/

The large post World War II baby crop will be reaching marriageable age and joining the labor force in the second half of the 1960's. They will contribute to a possible total increase of 1 million households a year which should cause a boom in housing, appliances, furniture, and other household durables. 4/

Additional shelter demand will come from the housing requirements of the elderly. Liberalized retirement and employment opportunities have made it possible for an additional 300 thousand persons per year, 65 or over, to maintain households rather than to "double up." Life expectancy continues to increase. The expectancy at birth is now 70 years compared to 68 years in 1950. 5/

We are able to predict confidently that the demand for housing and household equipment will rise to new heights in the second half of the decade. This assumes an adequate level of employment and other characteristics of a healthy economy.

1/ U. S. Department of Health, Education and Welfare, Monthly Vital Statistics Report, Vol. 8, No. 13, Apr. 25, 1960.

2/ Bureau of the Census, Current Population Reports, Population Characteristics, Series P20, No. 103, July 6, 1960.

3/ Ibid

4/ Ibid, No. 90, Dec. 29, 1958.

5/ U. S. Department of Health, Education and Welfare, Provisional Statistics, Estimated Number of Deaths and Death Rates...Aug. 12, 1960.

Rates of New Housing Production

Economists and housing people differ in their estimates of just what quantity of housing should be added to the supply each year to keep up with current needs. The opinions might average out at about 1.5 million units including about 100 thousand farm homes. This is presumably arrived at by projecting the annual rate of household formation, and adding the estimated replacements for substandard housing and for losses from fire, demolition, merger, etc. The former is now averaging about 900 thousand units and the latter at least 500 thousand units annually.

According to preliminary census housing counts, we have provided an additional 1.25 million units yearly on the average since 1950. 6/ Additions to the housing supply other than by new construction are largely from conversion (defined as the creation of new units by dividing existing units) and probably run about 200 thousand a year. This means that the desirable total of 1.5 million units must be made up of 1.3 million newly constructed units.

The rate of housing construction for the year 1960 may be about a fifth below the rate for 1959. However, the effects of an improving supply of mortgage money should be felt by 1961, therefore next year's total of units started may approach our goal of 1.3 million. The total for last year was almost 1.6 million units, which should have helped to overcome some of the deficits of the low-production years.

There is a close relationship between the supply of mortgage funds and the vigor of new house construction.

Many newly married couples are finding it very difficult to buy a new home. They are not able to use the benefits of the GI Bill, either because they do not qualify or because GI financing on houses for sale is often not available. On the average, fewer than one out of five buyers is able to pay for his home entirely in cash. Of the remainder who do not "take over" existing mortgages, about three of four finance their homes with conventional mortgages. The remainder use FHA or VA mortgages. However, since about 1956, VA mortgages have dropped in importance and in 1959 represented only about 6 percent of the total number of new mortgages written. 7/ New homes are often for sale only under FHA or under conventional mortgages, both of which entail higher down payments and, frequently, higher monthly payments than GI financing. Lenders consider GI mortgages a less attractive investment because of their noncompetitive return under the present high interest rates. I should like to discuss costs and financing later at greater length.

The demand for apartments has increased partly as a result of the difficulties in buying new homes encountered by young people and others without the resources to make a sizable down payment. In response, large apartment houses are being constructed at the most rapid rate since 1954-55. At this point, indications

6/ Bureau of the Census, Housing Unit Counts, HC(P1)-1, Sept. 1960.

7/ Housing Statistics, Annual Data, March 1960, Housing and Home Finance Agency.

are that construction of large multi-unit structures is running about a third above the rate for 1959 according to the Engineering News Record. 8/ This trend is seemingly in spite of the large rental vacancy rates reported locally for some cities--and reported nationally by FHA for apartments financed by FHA mortgages and by the U. S. Bureau of the Census. 9/ Apparently effective demand is strongest for large, luxury-type apartments. New luxury apartments with large rooms and swimming pools are being rented at high rates as soon as completed.

A discussion of production of new homes is incomplete without a reference to the trend towards less conventional homes. Mobile houses are becoming ever more elaborate and production is soaring. Last year there were over 114 thousand homes on wheels sold, an increase of 11 percent over 1958. About 380 manufacturers competed in this output. The manufacturers are following very imaginative designs in the built-ins, the luxurious paneling, and the spaciousness of the better units.

Vacation homes production is booming also. The National Association of Real Estate Boards estimated that $1\frac{1}{2}$ to 2 million families own second homes.

Trends in Costs of Housing

It is now gradually beginning to be easier to borrow money to buy or build a house than it was earlier this year. On the other hand, the cost of constructing a house, and therefore often the price, is higher than it was a year ago. The Boeckh Index of Residential Construction Cost was over 2 percent higher last May as compared to 12 months earlier. 10/ Building materials are cheaper on the average, but average hourly earnings in contract building construction are up over 5 percent from last year. 11/

This analysis of cost and price neglects land, which has increased in price more than other elements of housing. The average site cost in FHA valuations has increased from \$761 in 1946 to \$2,362 in 1959. 12/ These prices, however, are not necessarily for comparable qualities of land. In a survey of 7,000 builders conducted in 1959 by the National Association of Home Builders, the acquisition of land at a reasonable price was given as the most serious home-building problem. Since land costs previously comprised roughly 10 or 12 percent of the total cost of a house and now may represent up to 16 or 18 percent, we can estimate that about a third of the average price rise in houses since the late 1940's is caused by a rise in land prices.

8/ The Housing Institute, New York. The Housing Letter, Sept. 3, 1960

9/ The rates were reported as 5.5 percent by FHA and 7.3 percent by Census at mid-1960.

10/ E. H. Boeckh and Associates, Washington, D. C.

11/ Bureau of Labor Statistics, Employment and Earnings, Vol. 7, No. 4, Oct. 1960.

12/ Statement by Julian Zimmerman, FHA Commissioner, as reported by House and Home, Aug. 1960.

Typical home and lot prices from the post-war forties to the present will demonstrate the relationship:

	<u>1947</u>	<u>1960</u>	<u>Percent increase</u>
Total	\$10,000	\$17,000	70
House	9,000	14,000	56
Land	1,000	3,000	200

House and Home published an interesting study on land availability and costs in their August 1960 issue. According to this study the boom in land prices is not supported by real land shortages around large cities. An artificial shortage is created by the land price inflation itself in that owners of unimproved land tend to hold their property for even higher prices. The implication is that suburban land prices may decline in spite of the population growth and high rate of new construction, according to House and Home.

Mortgage Credit

I have already mentioned the importance of the supply of credit funds in the future of housing. The outlook for the remainder of 1960 and for 1961 so far as mortgage money is concerned justifies some optimism. The supply of money for mortgage credit purposes has already increased slightly.

The scarcity in mortgage credit had an interesting effect on mortgages written. Unlike earlier periods when shortages of credit developed, the terms (other than interest rate) such as down payment and amortization, have remained quite stable. For example, VA loans made recently still have down payments averaging 3 percent of the price and usually extend for 30 years. They are, however, scarce and hard to obtain. FHA mortgages for new homes are also typically for 30 years and require down payments of only 7 percent of the purchase price. The drop in importance of new Government underwritten loans and the corresponding increase in the proportion of conventional mortgages with their higher down payment requirement have effectively raised the average down payment.

According to a recent article in the Survey of Current Business, the demand for housing responds more to changes in down payments than to interest rates. 13/ As a result, there has been a long-term tendency to lower down payments until they are now reduced to a practical minimum. The current 30-year term of the mortgages seems to be at least approaching a reasonable maximum. Therefore, the increase in interest rates has had a direct effect on monthly payments. The monthly payment including interest at 6 percent and amortizing a 30-year loan is 12 percent higher than a monthly payment on a similar loan at 5 percent. This may help to explain some of the depressive effect on housing starts of a tightening mortgage market. Many buyers cannot qualify for a new loan on the basis of income according to FHA or lenders' rules.

In summary, mortgage money may be the single most important item influencing the vigor of the housing industry. The high interest rates have effectively forced up the average down payment required, by increasing the proportion of high down payment conventional mortgages among all new mortgages written. The low down payment VA and FHA mortgages have declined in importance through their inability to compete in the market.

Some of the reasons for a brighter outlook for mortgages are the Federal National Mortgage Association's recent increase in price for mortgages on the secondary market, and a significant increase in deposits in mutual savings banks. Since these banks are the heaviest purchasers of FHA and VA mortgages, their renewed activity in the market made possible by the increase in investment funds should bring more Government underwritten mortgages into the market.

Trends in Cost of Rental vs Owner Occupied Shelter

The trend of the cost for both rental and owner-occupied shelter is upward; the rate of increase has been $1\frac{1}{2}$ to 2 percent per annum. Homeowners in any urban group tend to spend more than renters because they invest in better housing; however, costs of rental and owner-occupied quarters of equivalent size and quality are about equal. 14/

Rent paid for a fixed quality of shelter has advanced steadily over the decade but with some slowing in the last 2 years as measured by the Consumer Price Index. During the 2-year period from December 1957 to December 1959, the rent index increased about 3 percent, at a slightly slower rate last year than in 1958. The increase for 1960 will again be at a lessening rate, probably about 1 percent. Tenant mobility and the rise in property taxes have important effects on rent change; particularly in areas where rental vacancies are scarce and there is a vigorous demand for rental shelter.

Total costs of home ownership as measured by the Consumer Price Index increased almost 3 percent from December 1957 to December 1959. These costs include purchase price, maintenance and repair, mortgage interest rate, hazard insurance, and property taxes. This is about the same increase reported for rent. Among the items of home ownership cost, residential property taxes have shown the greatest increase in price. The local public services and installations for water, sewer, schools, etc., have risen consistently in price over several years and are expected to continue to rise.

On the average, homeowner occupants have "better" housing than renters; but the former pay extra for their quality and size advantages. An important advantage of home ownership is privacy--the larger number of rooms, separate yard area, and usually a detached housing unit as compared to the typical rental apartment. Rising income for wage earners enables an increasing proportion to own their own homes.

The Federal Reserve Board's Survey of Consumer Finances for 1959 found all families receiving higher incomes than in 1958 and consequently more families planned to purchase homes in 1960 than in the previous year. This volume of purchases was not realized in 1960 according to quarterly reports of the National Association of Real Estate Boards. The decline in transfers probably was caused mainly by financing troubles, although unemployment and loss of

14/ Monthly Labor Review, Monthly Cost of Owning and Renting New Housing, M. Mead Smith, Aug. and Sept. 1954.

income were substantial in certain industrial areas.

The average monthly housing payments (including payments on principal, interest, taxes, and insurance) for homes newly purchased under FHA-insured mortgages have advanced steadily each year since 1950. Average mortgage payments are increased, of course, by rises in price and mortgage interest rate, and by rises in loan-value ratio (lower down payments). The monthly payments are decreased by an extended average term in years. These trends from 1957 to 1959 are as follows: 15/

	1957		1958		1959	
	New homes	Existing homes	New homes	Existing homes	New homes	Existing homes
Monthly payments	\$90	\$86	\$96	\$90	\$98	\$92
Loan-value ratio	85	85	92	90	94	92
Term in years	26	22	27	24	29	25

In spite of the large increase in average payments, the proportion that average housing expense represents of income rose only slightly from 19.5 percent in 1956 to 20.5 percent in 1959 for new purchases of new homes, according to the Federal Housing Administration.

The occupant turnover or mobility of the population contributes to the overall demand and is interrelated with other forces such as change to ownership. The Bureau of the Census estimates that about one person in five changes his residence in each 12-month period. 16/

An important trend which affects mobility is the large scale movement to and from the suburbs around large cities. The movement to the suburbs reached its peak in the years 1950 to 1955. Since 1955, movement in this direction has slowed while movement in the opposite direction has increased slowly but steadily. The reason for the reversal is probably the higher taxes and commuting problems of suburbia. 17/

New Trends in Housing Construction and Design

The physical design of houses is often more interesting than question of production and mortgage money. There have been interesting changes in middle-priced homes and the changes are well worth discussing.

The Mortgage Bankers' Association in its quarterly review has recently quoted the testimony of Mr. Charles Wellman on pending housing legislation. The statement makes the point that easier credit can no longer be looked to for

15/ Report prepared by Federal Housing Administration, Division of Research and Statistics.

16/ Bureau of the Census, Series P20.

17/ From a paper given before the American Statistical Association by A. F. Parrott at Stanford University in Aug. 1960.

expanding the housing market. It continues, "Future expansion must be gained in another way. That way is a direct attack on building costs. The emphasis must shift from the field of finance to the fields of design, invention, building products and construction methods. ..." 18/

The median size of new medium-priced and low-priced homes has increased for years and is now about 1,100 square feet, if FHA mortgaged houses may be taken as typical. A house of this size offers many possibilities for attractive design features. The 900-square-foot house of 1950 had space for two or three small bedrooms and one bath. A separate dining room was out of the question unless the living room was unreasonably small. Today, space is often provided for an entrance hall, family room, second bathroom, and breakfast area.

Besides a larger number of more spacious rooms, the planning is more imaginative. The prevalence of large families has caused builders to attempt a greater separation by zones, e.g., sleeping, living, and recreation areas. The split level accomplishes this most effectively. The rambler with finished English basement and the "L" shaped house also may be efficiently zoned.

Builders have tried to increase the blending of the interior and exterior through greater use of picture windows, sliding glass doors, and patios or courts. The land site is being finished with more care by utilizing land configuration and existing trees.

Household Equipment

At this point I should like to turn to equipment and furnishings for homes. After a record year in 1959 for sales of household goods, we confidently expected continued strength in 1960. The boom failed to continue largely because of the drop in new house construction. The furnishing and equipping of new homes takes a significant part of the production of these items. The average family buying a new home spends \$1,569 the first year on furnishings and equipment, according to a study conducted by the University of Houston. This includes \$635 for furniture, \$710 for appliances, and \$224 for yard and work tools. The drop in construction of about 300 thousand homes from last year has had an understandably depressing effect on sales of these items.

The Federal Reserve Board's Production Indexes show the following percent changes from July 1959 to July 1960:

Home Goods-----	- 0.8
Appliances (excluding radios and TV's-----	- 0.6
Radios and TV's-----	-14.1
Furniture and rugs-----	- 1.6
Miscellaneous home goods-----	+ 3.8

18/ Mortgage Bankers' Association of America, Quarterly Economic Report of Trends in the Mortgage Industry, July 28, 1960.

Department stores report a downward trend in sales of furniture and bedding, domestic floor coverings, major household appliances, radios, and television sets. Manufacturers' shipments are down seriously for washing machines and freezers but the decline includes most other appliances. A few growth items such as dishwashers, garbage disposers, eye level ovens, and counter-top ranges moved up against the trend.

Consumer Credit

An increasing proportion of major household goods are being purchased on credit. ^{19/} The total installment credit outstanding had risen to a record high in July, according to the Federal Reserve Board. That part of credit outstanding used to purchase goods other than automobiles has increased, but less rapidly in recent months. This slowing has occurred because of curtailed consumer purchases and not because of a more conservative credit-purchase ratio by buyers.

Annual Averages
of Installment Credit Outstanding

	Total installment credit	Consumer goods other than automobiles (In millions of dollars)
1953	23,005	6,779
1954	23,568	6,751
1955	28,958	7,634
1956	31,897	8,580
1957	34,183	8,782
1958	34,080	8,923
1959 ^{1/}	39,482	10,243
July 1960 ^{1/}	41,687	10,202

^{1/} Includes data from Alaska and Hawaii beginning with January and August 1959, respectively.

SOURCE: Federal Reserve Bulletin, Sept. 1960.

Prices of Household Equipment

As you may recall, I mentioned 2 years ago that retail prices of appliances excluding radios and television sets dropped considerably from 1953 to September 1958--over 15 percent. This occurred during a period when all housefurnishings (including textile housefurnishings) declined only 4 percent and the "all items" Consumer Price Index moved up 8 percent.

^{19/} The ratio of installment credit outstanding for consumer goods other than automobiles to personal consumption expenditures for furniture and household equipment was at a high of 54 percent in 1959. These data are published respectively in the Federal Reserve Bulletin and in the Survey of Current Business, National Income issue, p. 17, July 1960.

From September 1958 to September 1960 prices of appliances have continued to move down slowly--about 1 percent over the 2 years. The average for all housefurnishings during this 2-year period increased about 0.5 percent as higher prices were recorded for textile housefurnishings, furniture, and wool floor coverings.

One important reason for the average decrease in prices of housefurnishings was the emerging importance of discount houses in the mid-1950's. Appliance prices were particularly depressed in this period. On the other hand, furniture and household textile prices decreased only moderately since 1953 while floor coverings rose vigorously. The outlook for prices next year in these items is for stability or some strengthening to accompany the rise in the production and sale of houses.

Quality Improvement

I should like to discuss briefly the improvements which have gradually but significantly altered several products. Among many of the older items there has been an upgrading in quality which is hard to evaluate in terms of price. For some items, objective comparisons can be made. For example, the standard table television set, priced for the Consumer Price Index in 1950, was a heavy, unwieldy model. It was complicated to tune, had a 16-inch picture tube, and retailed for about \$275. The 1961 table model, currently priced for the index, is light, attractively slim, and space conserving. It has circuit improvements that are readily apparent in tuning and a 23-inch picture tube. This model retails for approximately \$220, or \$55 less than its 1950 counterpart. The same trend holds true to a somewhat lesser degree for floor coverings and furniture. In addition, the development of new items such as dehumidifiers, dishwashers, combination washer-dryers, color television, hi-fidelity, and synthetic carpet fibers has done much to improve the American level of living.

The American genius for technology and gadgetry has been apparent in the development and improvements of household appliances. The stimulus for product improvement has arisen partly from the strength of the replacement market in recent years. A consumer buying his second or third air conditioner or vacuum cleaner may be harder to satisfy than when he purchased initially. I think several product changes are worth mentioning in detail.

Conventional refrigerators are frequently replaced by refrigerator-freezer combinations having greater capacity and automatic defrosting. Roughly 50 percent of current refrigerator sales are accounted for by combination refrigerator-freezers. The more expensive models feature completely automatic defrosting in both refrigerator and freezer compartments. The next few years may see the refrigerator-freezer become almost standard in large-family homes. New types of insulation, primarily fiberglass and chemical foam, have permitted manufacturers to follow "thin-wall" design. As a result, a box with a large interior storage capacity may be fitted into the same space formerly required for a smaller refrigerator with the same exterior dimensions.

Safe, quiet, economical room air conditioners of increased efficiency and reduced installation complexity are now available for use with standard house current. Some models are now light enough to be considered portable and may be carried from room to room.

A remarkable development in central air conditioning is the reversible summer-winter heat pumps that provide year-round comfort by control of air movement and quality. These units have sold in more volume in recent years, particularly in the temperate areas of the country. Much of the new housing in the medium and high price range is equipped with standard central air conditioners.

Automatic washers are frequently purchased to replace wringer type units. Washers with two or more agitating and spin speeds are selling in quantity. One indication of the difference between standard and deluxe models is the number of controls which select washing cycle time, agitator speed, and water temperature. Automatic dryers should be mentioned since their popularity is zooming. From 1949 to 1959 sales of dryers increased more than tenfold, from 105 thousand to more than 1 million units. Electric dryers account for about 65 percent of total dryer sales. Drying time and temperature may be selected according to the type of wash. Several firms have developed dryers which sense when the wash has reached proper moisture content and shut off the mechanism. These machines are claimed to eliminate the harsh feel of certain fabrics when they are over dry.

Increased automation is an interesting advance in gas and electric ranges. Electric ranges even at lower prices recently include ovens which may be started and turned off by clock timers. Both gas and electric models can be had with barbecue attachments and rotisseries. In addition, warming drawers, double ovens, and thermostatic burners are becoming common. Most gas ranges are now equipped with automatic oven lighting and oversize simmer burners. Built-in range tops and eye level ovens have increased in popularity during the past 6 years, particularly in new housing. They lend themselves to imaginative kitchen design, and are more convenient to use.

Even appliances which are usually out of sight have undergone streamlining changes as well as improvements in efficiency. The upright vacuum cleaner has been made lighter and lower for low clearance cleaning. The canister cleaner has become very popular because it is less expensive, lighter in weight, and capable of performing nearly as many tasks as the upright. However, some models lack the ability to clean rugs and carpets well. Some manufacturers have doubled motor size to provide more suction and cleaning power. Occasionally rug tools with revolving brushes are available with the higher-priced models.

The domestic production of sewing machines has fallen off with only one or two companies manufacturing a limited number of models. Lower-priced imported sewing machines have offered serious competition to American produced machines. While the conventional machines are still in demand, the "zig-zag" machines capable of doing a greater variety of stitching are becoming very popular.

Carpets

Tufted floor coverings in manmade fibers have gained much of the market in recent years. Carpets made of Acrilan, nylon, and other new materials come in various configurations, loop or cut piled, and in all sizes. Backings of latex are now often used and may include scrim, which gives additional body to the carpets.

Furniture

An interesting development in furniture in recent years is the new veneers and finishes that have been created. These range from the synthetic plastic "formica" type finishes to natural wood veneers finished in new shades. Compressed wood byproducts are frequently used to form hardboard and other grainless sheet wood products. The final finish commonly consists of plastic coating, as well as the more traditional shellac and varnish. In cheaper furniture, inexpensive wood exteriors are found with simulated high quality wood grains produced by a photographic process. This finish is also used on some metal television cabinets.

The changes in house design have stimulated certain trends in furniture sales. The use of plastic upholstery for chairs and sofas is common for furnishing recreation rooms. Of course the return to separate dining rooms has created a larger market for dining room sets.

Wrought iron furniture is becoming more popular for use in patios and courts. However, it is also occasionally found inside the house.

Modern furniture shows the Swedish and Danish influence and is most frequently slim and simple. For the more conservative, early American styling has regained prominence during the past few years, after being nearly off the market for several years.

Summary

I should like to summarize briefly the points most relevant to the outlook for housing. The demand for new housing arises partly from the rate of household formation. The important component here is the marriage rate, which will probably increase only slightly in 1961 but will begin to zoom within a very few years.

The more specific economic factors which seriously affect the construction and sale of housing are: (1) income and employment, (2) housing cost, and (3) availability of mortgage funds.

Personal income was at a new high in almost every State in 1959 and by July of 1960 had reached a seasonally adjusted annual rate of \$407.1 billion. The outlook is for continuing but smaller increases in months ahead.

Other economic indicators are not as favorable, with the Gross National Product for the third quarter of 1960 down slightly and industrial production down for September from preceding months in 1960.

Housing construction cost will probably rise moderately in 1960. However, we consider land prices inflated and there is a possibility that these prices may fall to a more realistic level. The outlook for housing credit next year is favorable.

As these considerations imply, the prospect for next year's construction of new houses is good with some qualifications.

The market for household equipment is influenced by the residential construction rate. However, the replacement market is increasingly important, also. Since residential starts may be high in 1961, a good year is probable.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service
Institute of Home Economics

IMPROVING FOOD CONSUMPTION OF RURAL NONFARM FAMILIES

By Eloise Cofer, Household Economics Research Division

Food supplies in the United States are sufficient to provide every U. S. family with quantities of food to meet--with good margins--the nutrient allowances recommended by the National Research Council. However, not all families have equal opportunity for such an abundant food supply. The comforting picture that we get from average figures does not hold for low-income families.

This paper is concerned with those families who have below average incomes both rural nonfarm and rural farm families.

For purposes of discussion, we will use the families in the 1955 Household Food Consumption Survey 1/ whose net incomes after payment of personal taxes were less than \$2,000. We will also discuss the food supplies of families in five rural counties of Southeast Kentucky and five rural counties of Texas studied in 1956-57 and 1958, respectively. 2/ Twenty-five percent of the rural nonfarm and farm families of two or more persons reporting in the 1955 Household Food Consumption Survey had incomes less than \$2,000. While we are discussing all families in the two low-income areas of Kentucky, 71 percent had incomes under \$2,500 and in the Texas counties 54 percent fell into this category. How well do these low-income rural families meet their food needs?

One measure of a family's success in meeting food needs is the nutritional level of the family food supply. The goal we often use for the nutritional level of the diet of an individual or a group is the National Research Council's recommended daily allowances. As shown in chart 1, among families with incomes of less than \$2,000, 70 percent of the rural nonfarm families and 56 percent of the rural farm had diets for a week in spring 1955 that were below NRC allowances in one nutrient or more. The percentage of these nonfarm families that have diets low in four or more

1/ Food Consumption of Households in the United States, Reports Nos. 1 and 12. U. S. Department of Agriculture.

2/ For a fuller description of the consumption patterns of the families in the low-income areas studied in Kentucky and Texas, see "The Outlook for Family Living Consumption Among Low-Income Families," Mary Jane Ellis; presented at the 38th Annual Outlook Conference, U. S. Department of Agriculture, Washington, D. C., November 16, 1960.

nutrients is also considerably higher than for rural farm families--42 percent as compared to 31 percent. Falling short of the NRC goal does not mean that diets are necessarily poor, but the figures serve to illustrate that farm families' diets were better than rural nonfarm.

Money value of food also can be an indication of the probability of a family having a diet with a high or low level of nutrients. In 1955 when the weekly value per person for food was less than \$4 the chance of having food to meet NRC allowances in all nutrients was small. Of the 72 rural nonfarm families in the 1955 Household Food Consumption Survey with incomes below \$2,000 and with a money value of food less than \$4 per person per week, only one family had a diet that met the NRC allowances for all nutrients. Seventy-five percent of these 72 families had diets that failed to provide as much as two-thirds of the allowance for one or more nutrients. Even with a money value for food of \$4 to \$6, only 12 percent of the low-income families met NRC allowances for all nutrients--and 34 percent had diets with less than two-thirds of the allowances for one or more nutrients. From chart 2, we can see the percentage of the rural nonfarm families having money values for food in different categories. One-third had food with money value less than \$4 and another 30 percent between \$4 to \$6. This chart also shows the better position of the rural farm families in this low-income group with regard to money value for food.

The poorer position of the rural nonfarm family compared to the farm family as measured by money value of food is also seen in the studies of rural development areas in Kentucky and Texas. In Kentucky in 1956-57, families whose incomes came entirely from nonfarm sources had a money value for food of \$4.25 per person per week, while the families whose incomes came entirely from farm sources had food valued at \$6. In Texas in 1958, nonfarm families had a weekly money value for food of \$6 per person; farm families had food valued at \$7.70 per person per week. The better position of the nonfarm families in Texas was due to good employment conditions. However, the farm families here, as in the other examples, had a higher money value for food than the nonfarm.

Home production important to low-income rural families

In each example, the factor that gives the rural farm family the advantage is home production of a part of the family's food supply. Home production means a more liberal diet than families obtain when they must purchase all of their food. It is still one of the dividends of farm living at any income level. Emphasis also needs to be given to the greater relative importance of home production to the low-income family. In the U. S. low-income farm sample, home production of food added \$530 yearly to the value of consumption; for rural nonfarm families the gain from this source was \$127. The 1956-57 Kentucky data showed a similar pattern of home production by farm and nonfarm families (\$625 and \$155, respectively).

Because of the tendency of families to decrease, or hold constant, the amount of home production while increasing total value of food as income rises, home production accounts for a larger percentage of the total

money value of food among low- than among high-income families. For example, low-income rural nonfarm families in 1955 had home-produced food valued at 14 percent of the total value of food, while for families with incomes between \$4,000 and \$5,000 home-produced food accounted for only 5 percent of the total. Also, in the case of farm families, the value of home-produced food varied little with income, while the total value of food increased. Therefore, for those families with incomes under \$2,000, home-produced food accounted for 43 percent of the total value and for those with incomes of \$4,000 to \$5,000, the total value was 35 percent.

Money value of food per person per week

Money income:	Rural nonfarm		Rural farm	
	Total	Share home-produced	Total	Share home-produced
	Dollars	Percent	Dollars	Percent
Under \$2,000	5.38	14	6.14	43
\$2,000-\$3,000	7.00	8	7.38	35
\$3,000-\$4,000	7.25	7	7.50	35
\$4,000-\$5,000	8.16	5	7.70	35
\$5,000-\$6,000	8.26	5	8.01	30
\$6,000-\$8,000	9.49	4	7.74	32
\$8,000-\$10,000	11.32	3	8.23	36

In the data from the Kentucky and Texas low-income areas, as with U. S. data, there is a tendency for families to produce less proportionately as income increases. In Kentucky, this tendency was more marked among those who were not dependent on farming.

The value of home production among both U. S. nonfarm and farm families declined with increase in family size. In the Kentucky counties, however, home production among nonfarm families showed no consistent relationship to family size. Among farm families the value of home production increased with family size though not proportionately.

In the rural development area of Kentucky, the proportions of the group producing show little variation in relation to family size when all families in the sample are combined. When those dependent on nonfarm sources of income are examined separately, a tendency appears for fewer families to engage in home production as family size increases. These larger families could profit by home production, since there is a tendency for per capita money value and nutritive value of food to decrease as family size increases.

Families on farms produce foods high in money value

One reason for the high value of farm home-produced food is the nature of the food produced on farms. Farm families are able to produce

foods that require more land and equipment than many rural nonfarm families have available.

Rural farm families with incomes under \$2,000 in 1955 produced three-fourths of their milk supply, one-half of their meat, 81 percent of their poultry, and 50 percent of their vegetables--on a money value basis.

U. S. data in chart 3 show that a much larger percentage of farm families home produced more of these four groups of foods than the nonfarm families. Farm families were more likely than nonfarm families to have home production of animal products, fruits, and vegetables. Almost all farm families had gardens. Gardens and poultry were about the only source of home-produced food for nonfarm families. Most of the low-income non-farm families having gardens produced and used fresh more than 6 vegetables other than potatoes; 44 percent raised potatoes and/or sweetpotatoes. Over a third had fruits including melon. While 65 percent of the rural nonfarm families produced and used fresh vegetables, only 50 percent canned any vegetables, and 9 percent froze some vegetables. About a fourth of the families canned some fruit.

Families studied in the rural development area of Kentucky show a similar picture. Practically all families with farm incomes raised some of their own food, as compared with only 64 percent of those entirely dependent on nonfarm sources of income. Among the nonfarm group, the low producers were largely young families. A significantly larger number of the older families--married 35 years or longer--raised a larger part of their food supply. The fact that relatively more of these families engaged in home production may be because many of them are retired--some from farming--and have more time and an increased incentive to produce a part of their food supply.

Outlook for improvement of rural nonfarm diets

Lack of land is probably the chief reason for failure of rural non-farm families to home produce more of their food supply. However, in many areas, garden space is available and an intensification of the home garden program might help rural nonfarm families have better diets. It is doubtful that the production of other foods by low-income nonfarm families is feasible. Since a greater percentage of families have gardens than can vegetables, some improvement may be made in this area for extension of the garden to a year-round vegetable supply.

Programs, too, for helping the surplus farm produce reach nonfarm families in nearby areas at attractive prices may encourage use of more fresh vegetables, fruits, and meats and more canning for year-round use.

An analysis from these areas indicates, however, that even with increased home food production, the paramount problem is to find means of raising the income of the rural nonfarm family so they can buy the foods they need.

Table 1.--Value of food consumed, averages per family in two rural development areas, Kentucky 1/ 1956-57 and Texas 2/ 1958

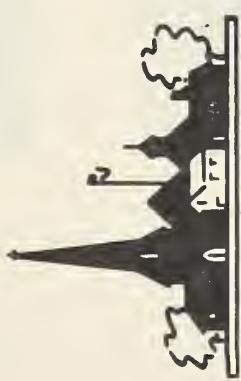
Area and family characteristics	Families <u>3/</u>	Average family size <u>4/</u>	Value of food consumed				
			Total	Purchased for use:		Home-produced	Received as gift or pay
				At home	Away		
Kentucky	Number	Number	Dollars	Dollars	Dollars	Dollars	Dollars
All classes	346	3.6	1,085	452	82	523	28
Income class <u>5/</u> :							
Under \$1,500	138	3.2	892	375	42	453	22
\$1,500-\$2,499 ...	107	3.6	1,090	454	77	529	31
\$2,500 and over..	101	4.2	1,345	556	143	612	34
Source-of-income class:							
Farm only	92	3.8	1,178	453	66	632	28
50 percent or more farm	97	3.5	1,181	436	76	644	25
Less than 50 percent	82	3.5	1,134	419	99	594	23
Nonfarm only	75	3.6	794	508	92	155	38
Texas							
All classes	350	3.5	1,191	772	101	290	29
Income class <u>6/</u> :							
Under \$1,500	124	2.9	954	558	33	347	16
\$1,500-\$3,499 ...	117	4.0	1,171	778	72	290	32
\$3,500 and over..	103	3.8	1,483	999	216	228	40
Source-of-income class:							
50 percent or more farm <u>7/</u> ..	35	3.1	1,254	630	50	567	7
Less than 50 percent farm ..	146	3.5	1,204	700	81	394	30
Nonfarm only	168	3.7	1,167	866	129	140	33

1/ Barren, Cumberland, Hart, Metcalf, and Monroe Counties. 2/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties. Preliminary data. 3/ Limited to families in the open country in which husband and wife were present throughout the year. 4/ In year-equivalent persons. 5/ Based on 1956 family income after personal taxes. The farm component is computed on a cash basis. 6/ Based on 1958 family income after personal taxes. The farm component is adjusted for inventory change and for depreciation on machinery. 7/ Includes farm only.

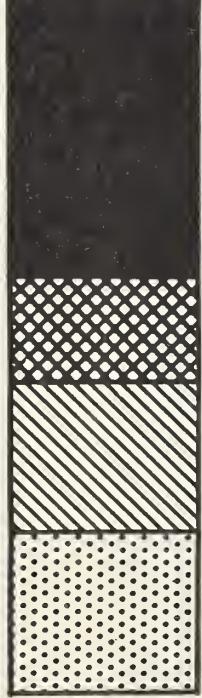
DIETS LOW IN NUTRIENTS

Rural Families with Incomes Under \$2,000, 1955

FAMILIES

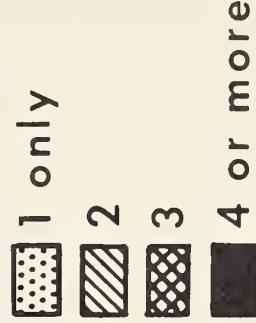


RURAL NONFARM

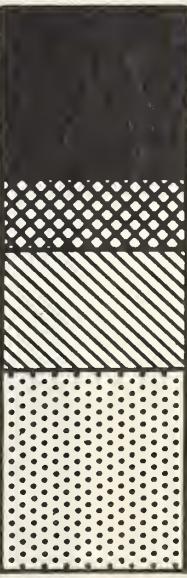


70%

DIETS LOW IN *



56%



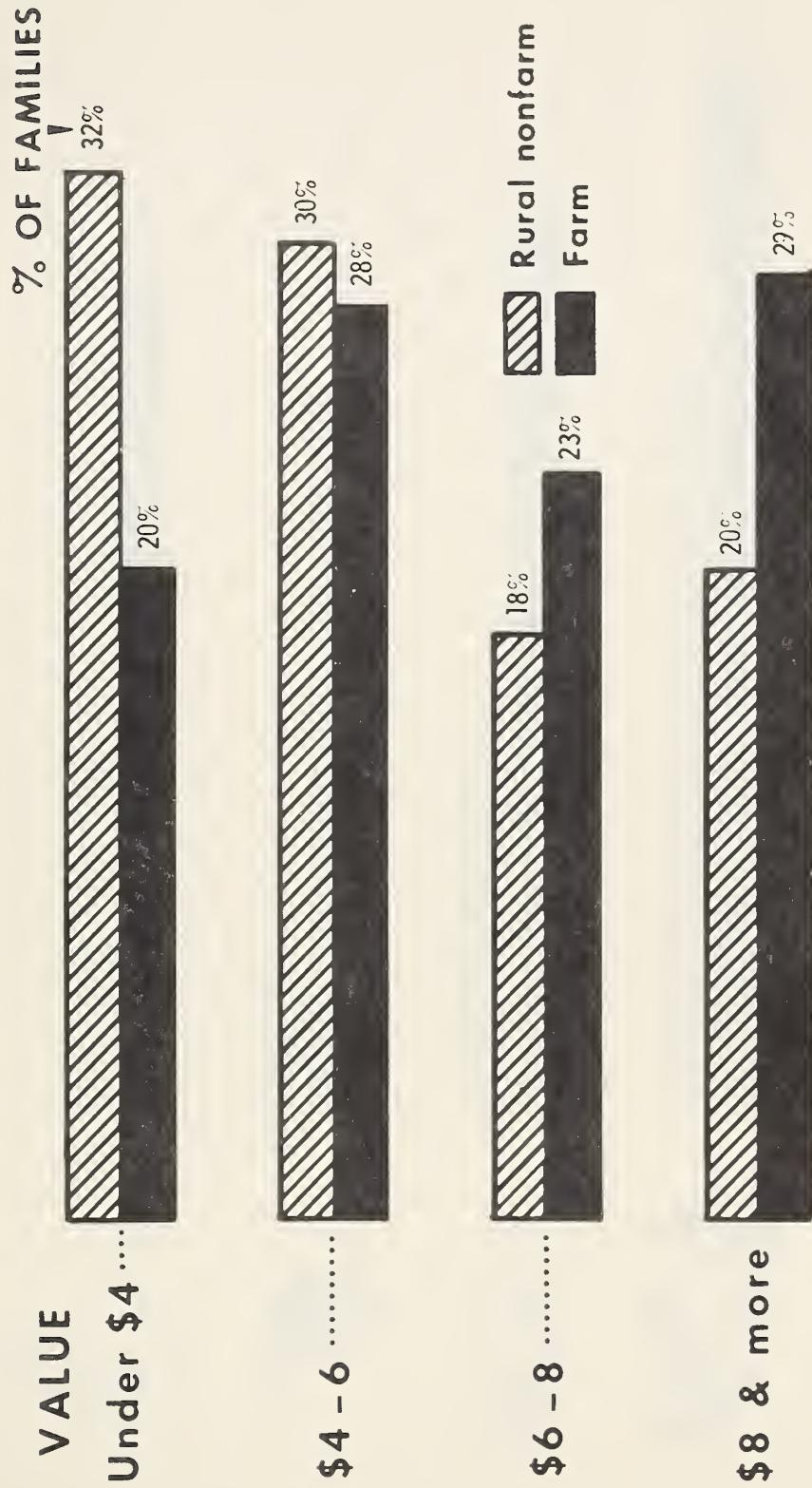
FARM

SPRING 1955

* BASED ON NRC DIETARY ALLOWANCES

VALUE OF FOOD PER PERSON PER WEEK

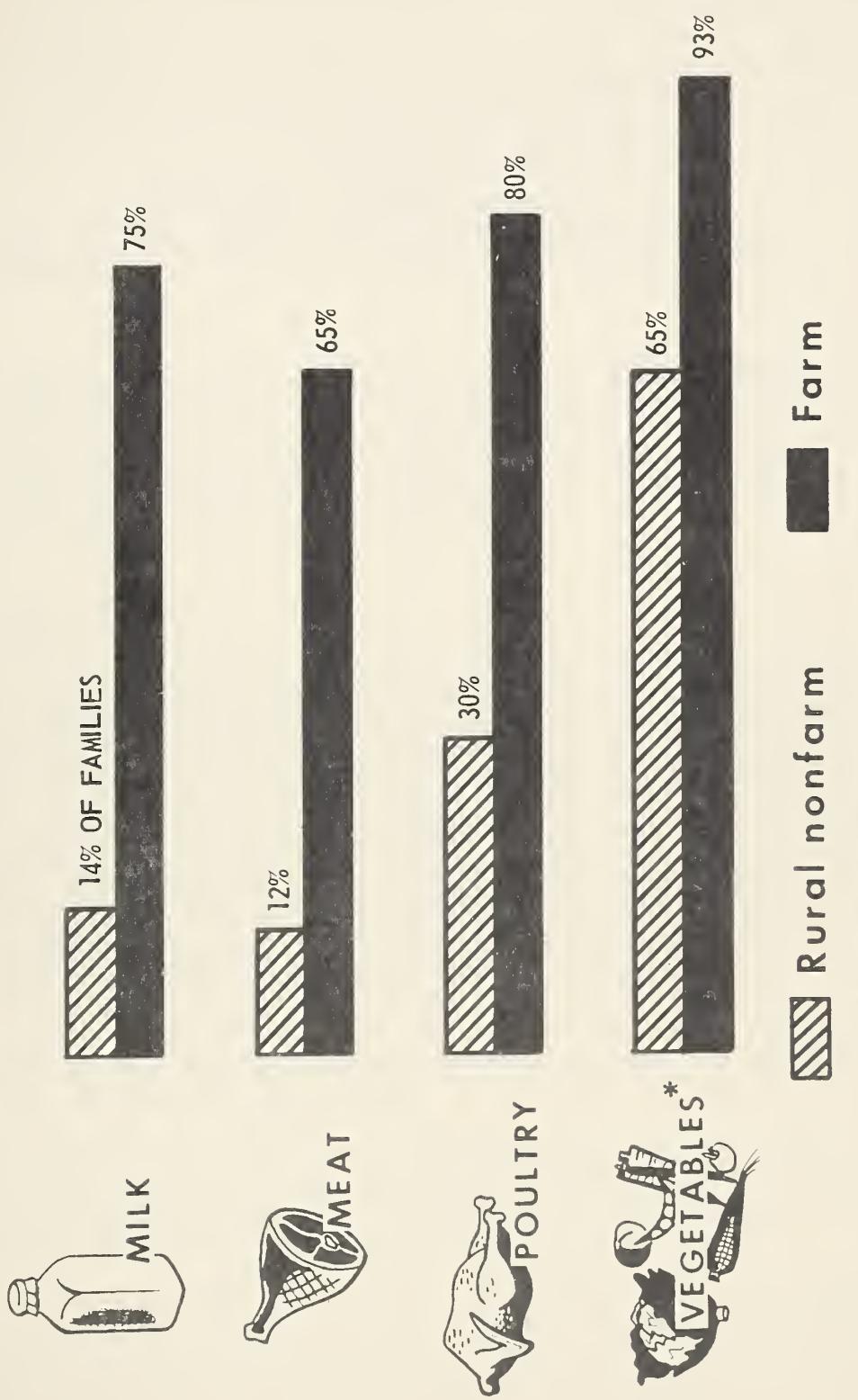
Rural Families With Incomes Under \$2,000, 1955



SPRING 1955

FOOD PRODUCED FOR HOME USE

Rural Families With Incomes Under \$2,000, 1954



UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

LEGUME AND GRASS SEED SITUATION IN 1960-61

Statement by William R. Askew
Agricultural Economics Division,
at the 38th Annual Agricultural Outlook Conference,
Washington, D. C., 3:45 P. M., Wednesday, November 16, 1960

The 1960 production and carryover of the 26 leading legume and grass seeds is currently estimated at 973 million pounds, 5 percent above last year's 927 million, but 11 percent below the 1949-58 average of 1,097 million. (See accompanying table). Imports amounted to 65 million pounds in 1959-60 while exports totaled 46 million. Both imports and exports were somewhat above the 1949-58 average.

Hay and Pasture Legumes

The initial supply (1960 production plus the carryover on June 30, 1960) of 6 kinds of legume seeds used mainly for hay and pasture totals 365 million pounds, up slightly from the 358 million available in 1959 but 12 percent below the average of 413 million. A decline of 13 million pounds in the supply of alfalfa seed was more than offset by an increase of 20 million pounds in red clover. However, the combined supply of these two leading hay legumes is 5 percent below the average available during the years 1949-58, but it is 2 percent above last year. Production of alfalfa seed in 1960 at 129.6 million pounds was practically unchanged from 1959 and the decline in supply was entirely the result of smaller carryover on June 30. The increase in the supply of red clover seed was shared by rises in both production and carryover.

The initial supply of alsike clover, sweetclover, white clover and Ladino clover is only slightly changed from that of 1959, but the supply of each is substantially below average.

Prices received by growers in mid-October this year were below last year for the three leading clovers. Sharpest drops, 27 percent and 20 percent, respectively, occurred for sweetclover and red clover. Alsike clover was down 7 percent and alfalfa declined 5 percent.

Prices paid by farmers on September 15, 1960 for common and certified varieties of alfalfa seed were about 10 percent above those of September 1959. White and Ladino clovers were also up, 8 and 12 percent respectively, but red clover was down 8 percent and alsike clover was 2 percent lower.

Grasses

The initial supply of 12 grasses excluding ryegrass for 1960-61 plantings is indicated at 268 million pounds, 9 percent more than was available last year and 6 percent more than the 1949-58 average. Supplies of only four --bentgrass, smooth bromegrass, crested wheatgrass and Sudangrass--are smaller than last year and except for bentgrass each is also below average. Above average production of timothy and Kentucky bluegrass along with sizable carryovers provide a large supply of each of these kinds.

Imports in 1959-60 of Kentucky bluegrass, red fescue, orchardgrass, crested wheatgrass and smooth bromegrass were notably larger than average, and the total for the grass seed group, at 44 million pounds was more than twice the average imports.

Prices received by growers for practically all 1960 crop grass seeds were lower than 1959 prices, mostly in response to the liberal supply in relation to domestic needs. This year's mid-October price of timothy was less than one-half that of last year. Redtop, smooth bromegrass, crested wheatgrass and fescue seeds are all expected to move from farms at lower prices than in 1959. The lower farm prices at which processors were able to acquire the seed supplies were already reflected in retail channels this fall. Prices paid by farmers on September 15, 1960 for fall sown grasses were all lower than a year earlier. Largest declines occurred in prices of timothy, redtop, bluegrass and orchardgrass.

Winter Cover Crops

The initial supply of 8 winter cover crop seeds is estimated at 340 million pounds, 5 percent above last year but 21 percent below average. The increase is due to the large June 30 carryover which more than offset the declines in production. Except for crimson clover and common vetch, production of each of the winter cover crops is below that of 1959.

Supplies of ryegrass seed are plentiful. The total of common and perennial ryegrass is 8 percent above that available in 1959 and 79 percent above the 1949-58 average supply. The current supply of ryegrass accounts for 65 percent of the total winter cover crop seed supply, compared with the 10-year average of only 29 percent.

Prices paid by farmers this fall for sweet lupine and common vetch were above those of a year earlier while prices paid for all other winter cover crops were lower.

Prices received by growers for seed: Season average, dollars per 100 pounds clean seed, 1956-60

Kind of seed	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	Oct. 15 1960
	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	
Alfalfa	37.30	45.40	32.50	22.90	33.40	20.50	30.80	24.70	27.20	29.30	26.80
Red Clover	30.50	31.70	31.00	25.50	44.50	29.60	33.60	26.70	31.70	26.30	20.40
Alsike Clover	33.80	35.60	26.90	16.60	27.60	21.00	32.60	17.90	19.00	18.80	16.50
Sweetclover	11.80	9.81	9.32	9.19	11.10	9.53	9.40	7.64	8.32	8.78	5.96
White Clover	80.10	54.90	48.30	45.30	66.20	58.70	65.20	32.70	50.70	44.40	---
Ladino Clover	119.00	108.00	91.50	33.20	51.80	53.30	35.60	29.10	49.30	53.10	---
Lespedeza	8.77	12.00	18.10	18.40	19.50	7.84	10.30	8.04	8.02	9.78	---
Timothy	10.20	7.33	13.60	12.40	17.10	8.52	15.50	8.09	13.20	10.80	5.11
Orchardgrass	17.70	15.50	16.50	13.00	26.00	15.50	21.30	10.80	15.50	22.70	---
Redtop	34.30	23.30	37.70	51.30	56.20	36.10	42.90	19.50	22.60	28.20	---
Ky. Bluegrass 2/	11.30	9.31	12.50	15.50	14.10	9.62	12.10	6.95	6.53	8.52	---
Smooth Brome grass	17.60	13.80	22.00	11.90	11.00	16.50	30.00	7.98	8.84	15.40	---
Crested Wheatgrass	15.50	26.00	33.80	15.30	18.20	21.40	36.20	10.90	12.40	21.90	---
Sudangrass	7.34	7.05	10.50	5.21	8.99	4.57	6.40	3.06	4.76	4.72	---
Chewings Fescue	49.70	66.50	47.00	43.00	25.00	19.00	32.00	29.50	31.00	28.50	---
Red Fescue	51.90	69.30	48.30	41.30	25.50	22.30	42.30	36.30	31.70	28.30	---
Tall Fescue	40.80	50.90	25.40	12.50	15.40	9.17	13.10	10.00	11.30	16.60	---
Bentgrass	67.50	81.50	52.80	61.10	54.90	46.10	43.60	24.30	22.70	22.20	---
Hairy Vetch	15.10	14.90	13.50	11.50	11.20	13.30	13.90	9.87	10.30	10.10	---
Common Vetch	6.40	6.45	5.51	4.17	4.82	6.00	8.57	5.05	5.73	5.26	---
Purple Vetch	6.01	8.00	6.20	5.20	4.50	9.00	6.50	5.60	7.60	6.70	---
Common Ryegrass	7.50	9.00	6.70	8.90	7.00	5.60	4.75	4.40	7.80	6.00	---
Perennial Ryegrass	12.50	13.60	9.40	11.60	13.00	9.40	7.00	5.10	9.10	10.00	---
Austrian Winter Peas	4.47	3.61	3.10	2.65	2.61	3.32	3.20	2.26	3.45	3.39	---
Lupine	4.52	4.54	3.85	3.45	4.92	4.68	5.07	4.28	4.30	4.23	---
Crimson Clover	32.70	27.80	21.10	15.70	19.30	23.90	26.40	19.30	21.20	24.20	---

- 3 -

1/ Preliminary.
2/ Kentucky Bluegrass prices are for cured seed.

Prices paid by farmers for seed: September 15, and spring season average (4-month average Feb. 15-May 15), dollars per 100 pounds clean seed, 1958-60

Kind of Seed	Spring	Sept.	Spring	Sept.	Spring	Sept.
	1958	1958	1959	1959	1960	1960
	Dols. per cwt.	Dols. per cwt.	Dols. per cwt.	Dols. per cwt.	Dols. per cwt.	Dols. per cwt.
Alfalfa, Common	36.60	36.00	36.60	35.20	38.80	38.60
Alfalfa, Certified:						
Varieties	41.60	40.70	45.10	43.80	50.00	48.40
Clover, Red	41.70	43.00	47.10	45.00	42.30	41.40
Clover, Alsike	34.60	36.30	35.20	35.40	34.40	34.60
Clover, Sweet	16.70	---	17.40	---	17.00	---
Clover, White	73.50	86.60	85.20	86.50	85.90	93.60
Clover, Ladino	60.50	72.00	82.70	79.60	89.90	88.90
Clover, Crimson						
Common	---	28.80	---	30.90	---	24.20
Clover, Crimson						
Reseeding	---	32.70	---	34.90	---	26.90
Lespedeza, Korean	12.20	---	12.10	---	14.10	---
Timothy	18.90	24.30	27.50	23.30	21.90	18.00
Redtop	49.00	50.70	52.40	55.70	54.30	49.50
Bluegrass,						
Kentucky	74.80	68.30	60.30	70.40	73.10	63.70
Orchardgrass	28.90	32.20	33.20	38.10	38.60	34.30
Sudangrass	8.83	---	10.40	---	11.20	---
Bromegrass, Smooth	21.40	21.80	21.30	29.90	32.90	27.80
Wheatgrass,						
Crested	24.50	28.00	28.20	39.70	40.70	38.40
Fescue, Tall	---	21.10	21.80	26.60	32.90	24.10
Ryegrass, Common	13.40	14.80	16.80	12.00	14.30	9.24
Ryegrass,						
Perennial	---	21.00	---	22.30	---	19.30
Peas, Austrian						
Winter	---	7.61	---	7.52	---	7.50
Peas, Wild Winter	---	11.50	---	11.60	---	11.30
Vetch, Hairy	---	19.30	---	17.00	---	16.20
Vetch, Common	---	11.00	---	10.30	---	10.40
Lupine, Blue	---	5.91	---	6.49	---	5.83
Lupine, Sweet	---	9.00	---	7.65	---	8.58
:						

Source: USDA -- Crop Reporting Board.

October 1960.

LEGUME AND GRASS SEEDS: PRODUCTION, CARRYOVER, SUPPLY, IMPORTS AND EXPORTS, AVERAGE 1949-58, ANNUAL 1959 AND 1960

KIND OF SEED	PRODUCTION		TOTAL CARRYOVER, JUNE 30		INITIAL SUPPLY (Production plus carryover)		RELATION OF 1960 INITIAL SUPPLY TO:		TOTAL SUPPLY		EXPORTS Δ		
	1960		Average: 1949-58	1959	1960	Average: 1949-58	1959	Average: 1949-58	1959	Average: 1949-58	1959	Average: 1949-58	1959
	1,000 pounds		1,000 pounds		1,000 pounds		Pct.	Pct.	1,000 pounds		1,000 pounds		
Alfalfa	151,546	129,000	129,581	46,682	54,055	40,898	198,228	183,055	170,479	86	93	4,282	400
Red Clover	85,755	84,754	96,294	28,763	21,868	30,116	141,518	106,622	126,410	110	119	3,570	2,810
Alslike Clover	11,309	6,110	4,937	5,148	7,357	6,308	16,457	13,467	11,245	68	84	2,024	1,366
Sweetclover	45,451	26,896	25,745	17,156	11,949	18,680	62,607	44,455	71	106	14,093	10,553	
White Clover	4,180	4,640	4,320	1,597	1,706	1,398	5,777	6,346	5,778	99	90	1,193	225
Ladino Clover	6,490	4,329	4,744	2,452	1,893	1,593	6,781	6,873	45	101	2,155	0	
Total 6 Legumes	304,731	255,729	265,857	108,090	102,387	99,293	412,821	358,116	365,150	88	102	25,417	14,854
Timothy	38,501	43,481	48,445	11,161	3,212	13,349	49,662	46,693	61,724	124	132	2,878	1,149
Orchardgrass	11,984	8,455	12,075	3,727	4,308	3,821	15,711	12,763	15,896	101	125	3,940	9,138
Redtop	5,338	4,875	5,990	2,091	1,409	2,181	7,429	6,284	7,171	110	130	1	0
Kentucky Bluegrass	20,223	3,550	25,500	6,056	19,127	8,998	26,279	21,877	34,498	131	152	682	7,739
Merion KF Bluegrass	21,138	3,186	2,863	2,352	583	1,133	21,339	3,769	3,996	238	106	0	0
Chewings Fescue	5,134	10,560	10,500	5,310	1,899	4,021	12,474	12,459	14,522	194	117	527	19
Red Fescue	27,232	21,494	5,112	5,194	2,407	4,250	6,670	4,755	9,362	250	127	5,692	15,936
Tall Fescue	3,945	6,765	5,758	1,393	6,079	2,060	38,615	27,573	31,690	82	115	2,303	4,1
Bentgrass	14,061	4,617	10,777	7,602	12,151	2,226	5,678	10,999	7,984	141	79	80	14
Smooth bromegrass	3,613	2,745	2,705	1,743	3,182	1,918	5,286	21,663	16,063	74	96	6,269	8,150
Crested Wheatgrass	54,683	38,332	42,986	15,404	32,180	11,055	5,386	5,933	4,623	86	78	1,535	5,510
Sudangrass							70,087	70,512	57,041	81	81	75	0
Total 12 Grasses	188,230	153,172	202,423	65,999	91,720	63,720	254,078	244,892	268,143	106	109	20,298	43,721
Austrian Winter Peas	65,554	48,850	43,652	56,660	1,924	4,125	122,214	50,774	47,777	39	94	0	122,214
Crimson Clover	19,269	13,477	18,975	2,648	2,231	2,349	21,917	15,708	21,224	97	135	4,968	2,516
Lupine	44,987	10,050	7,790	32,657	627	2,502	77,644	10,677	10,293	13	96	389	2,982
Hairy Vetch	36,480	22,060	21,578	15,439	1,427	4,403	51,919	27,487	26,381	51	96	366	0
Common Vetch	13,802	4,380	6,070	8,778	1,336	932	22,580	5,716	7,002	31	122	1,287	0
Purple Vetch	7,887	8,100	3,900	1,911	1,265	1,084	9,738	9,365	4,984	51	53	0	23,867
Common Ryegrass	78,369	136,400	106,950	19,040	13,461	57,521	97,409	149,661	164,471	169	110	224	1,215
Perennial Ryegrass	20,960	45,080	45,000	5,675	9,640	12,444	26,635	54,720	57,444	216	105	1,903	8
Total 8 Winter Cover Crops	287,308	288,397	254,225	112,888	35,911	85,361	430,116	324,308	339,576	79	105	9,137	6,721
Grand Total 26 Crops	780,269	697,298	722,195	316,897	230,018	250,374	1,997,015	927,316	972,869	89	105	54,852	65,296

^{1/} July 1 thru June 30.
^{2/} Short-time average.
^{3/} Data not available.

* Included in "Other Clovers." Total of 3,540,000 pounds.

** Included in "Other Grasses." Total of 16,477,000 pounds.

*** Included in "Other Fescue." Total of 4,778,000 pounds.

Prepared in the Agricultural Estimates Division, AMS, USDA - October 1960.

For release
Nov. 14, AM

LIVING WITHOUT INFLATION

by

Woodlief Thomas*

Economic Advisor
Board of Governors of the
Federal Reserve System

About a year ago, Per Jacobsson, Managing Director of the International Monetary Fund, said that in the period ahead the principal economic problem that the world must face would no longer be combating inflation but "learning to live without inflation". As usual with Mr. Jacobsson's diagnoses of economic ills, this one was wise and prescient. It, today, provides the best answer to the haunting question that is raised by Mr. Koffsky's description of the economic course of events in the past year and his only mildly hopeful forecast of what lies ahead. That question is "Why aren't we having a sustained rate of growth that more adequately utilizes this country's resources?"

The course of events in the past year has surprised, puzzled, or alarmed many informed analysts, as well as those not so well informed. It has stimulated a search for causes and is bringing forth suggestions for remedies, some of which, based upon incorrect diagnoses of causes, are ill-advised. Even those of us who thought earlier that we detected the underlying difficulties had not expected them to become so powerful so soon. It is important that we recognize the nature of the forces at work, in order that we may be better apprised of what lies ahead and that we may better appraise the possible remedies.

Because they seem to me still to provide an apt description of some of these forces, I should like to quote -- even at the risk of seeming immodest -- some excerpts from the remarks that I made on this same occasion a year ago.

After reviewing the strong demands for credit and rising interest rates that had characterized the preceding year, I said "pressures for rising interest rates should on balance be less vigorous than last year. With yields on common stocks below yields on high-grade bonds and with uncertainty as to the prospects for corporate profits, there may be more of a tendency for investors to shift from

*The views expressed are those of Mr. Thomas and do not necessarily represent the views of the Board of Governors of the Federal Reserve System.

stocks into bonds. This would be another factor tending to hold down interest rates." I should have stopped there, but I went on, "In view, however, of the high levels of economic activity and of investment demands that have been indicated, it seems unlikely that interest rates will show any notable decline."

With respect to more fundamental factors, I expressed the view that "price changes and shifts in price relationships may be of much greater importance in the year ahead than fiscal and credit developments." I looked for a decline in agricultural prices and thought that further increases in prices of other basic materials would be limited by potentially available supplies. I expressed the fear, however, that current wage settlements presaged a continuance of cost increases and of the wage-price spiral. Any resulting price increases, I surmised, would set into operation corrective forces -- specifically mentioned were expanded productive capacity accompanied by income distortion -- that would build up consumer resistance to higher prices. I drew the conclusion that "Eventually demands will not keep up with capacity, profits will be squeezed and further investment discouraged. These are the forces that, as in 1957, will bring about the next downturn."

This analysis, it seems to me, provides an adequate explanation of the actual course of economic activity in the past year. There are a number of important lessons that economic forecasters -- and anyone who must make decisions on the basis of some assumption as to the trend of economic events -- might learn from that experience.

One puzzling and rather disconcerting conclusion that seems to be indicated is that there can develop a pronounced pause in growth without a preceding speculative spurt. A frequent forecast ten or twelve months ago was "Boom in Sixty, bust in Sixty-one." Many of us were taken by surprise at recent recessionary tendencies, because the upturn from 1958 had contained so few excesses. Now we can hope that, because there was no boom, the recession, if you wish to call the current trend by that name, will be short-lived.

Another lesson that may be learned from recent developments and one that may help to explain the just mentioned anomaly is that the term "cost-push inflation" is a misnomer. It is evident from recent experience that cost-push exerts a contractionary, not an expansionary, influence.

Another related lesson is that decisions of consumers as to spending and saving provide an autonomous force -- or a multitude of such forces -- in determining over-all economic activity. In the past year, consumer spending has declined while consumer income has continued to increase. This discrepancy is evident in Koffsky's analysis. It can be illustrated in more detail, which I shall not attempt here.

Analysts should devote more study to underlying causes for variations in consumer behavior and rely less on the macro-economic assumption that all consumer income is always spent rather promptly. I would suggest that the recent shifts in consumer buying reflect the income distortions, resulting from uneven increases in wages and salaries, and the consumer resistance to the rising prices brought about by cost-push and administered-pricing policies. The basic underlying cause has been the uneven distribution of the benefits of

increased productivity.* As I pointed out here a year ago:

"For the avoidance of *** a downturn and the maintenance of sustainable growth, it is essential that prices of finished products be reduced to the extent permitted by increases in productivity. Wages and profits should rise only where and to the degree necessary to attract labor and capital into growing industries. Such declines in prices are essential to stimulate consumer demands for increased output and to prevent undue distortions in the distribution of income. An essential for sustained economic growth is not price rigidity with a rising trend, but flexibility in individual prices with a slowly declining trend in the general level. In the absence of such flexibility we can look forward to the continuation of fairly wide up and down swings in economic activity. The year ahead will be part of an upward swing, but, if it contains too many unsustainable elements, a downturn may not be far behind."

What does this appraisal of causal forces signify as to the future? What, if anything, should be done to correct prevailing tendencies? One thing that needs to be kept in mind -- as I also suggested a year ago -- "Consequences of such structural imbalances cannot be prevented or remedied by fiscal or monetary policies."

The experience of 1958-59 shows that the structure of our existing Federal Government budget is a tremendous automatic stabilizer. The shift from a moderate cash surplus in fiscal year 1957 to a whopping deficit of \$13 billion in fiscal 1959 and then back to a small surplus in fiscal 1960 occurred with only moderate actions of a specific contra-cyclical nature. The first budget estimates for fiscal 1961 indicated a cash surplus of nearly \$6 billion; the latest official estimate is for a surplus of only \$2.5 billion. If there should be further moderate economic recession, a deficit of \$2 or \$3 billion would not be unlikely. Such shifts are large enough to be important contra-cyclical forces, without further specific action.

As to monetary policy, credit is now abundantly available. Even in 1959, when further bank credit expansion was being restrained by Federal Reserve policies, the total volume of all types of credit extended was far larger than in any previous year. The funds came in part from current savings of the public and in part from cash balances that had been greatly expanded in 1958. In 1960, with the Treasury retiring debt instead of borrowing heavily, with some decrease in private borrowing demands, and with an increased flow of savings into fixed-interest investment, as inflationary fears abated, credit has been plentifully available to meet demands.

Federal Reserve actions have made additional reserves available to member banks, enabling them to pay off borrowings, which they built up in 1959, and to expand their loans and investments. The money supply is again increasing, supplementing the very large supply of other liquid assets that the public has accumulated in the past two or three years. Interest rates have declined substantially.

*For an objective discussion of possible imbalances from various ways of distributing the results of increases in productivity, see "Sharing the Benefits of Productivity," International Labor Review, July 1960.

The principal drain on credit resources results from the current large gold outflow, which is due in large part to an increased movement of capital abroad. An expanded balance of net receipts in trade and service accounts now approximately offsets governmental aid and other payments abroad. The capital outflow may be attributed in part, though by no means entirely, to the currently lower level of interest rates -- long and short -- in this country than in credit markets abroad.

Resumption of economic expansion in the near future and the maintenance of sustainable economic growth in the years ahead will depend more largely upon the whims of consumers and the actions of producers and distributors in adapting their products, prices, and selling practices to those whims, than upon governmental policies. It is even possible that official actions, unless wisely conceived and applied, could hamper the essential adjustments and adaptations of free markets and retard rather than foster equitable price and income relationships and sustained growth.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1961

Talk by Nathan M. Koffsky
Deputy Administrator, Economics and Statistics
at the 38th Annual Agricultural Outlook Conference
Washington, D.C., November 14, 1960

After a period of advance from the brief recession of 1957-58, the economy has once again leveled off, with some easing noted in recent months. There is at present a rough balance of the forces making for economic expansion and those for decline which may persist for some months into 1961. However, as the year progresses the weight of the evidence is that the uptrend in economic activity will be reestablished.

Despite recent slackness, the flow of income to consumers continues to increase and is currently at a record high--some 5-6 percent above a year ago. This is the economic indicator which broadly reflects consumer demand for food and other products of the farm. For the period immediately ahead, consumer income should hold at least steady, at a level above a year earlier. As economic growth is resumed in 1961, further increases in consumer income will be generated. With prospects that consumer prices will continue fairly stable per capita purchasing power, currently at a record high, may well show a further gain.

So far this year, the Nation's output of goods and services--Gross National Product in constant prices--has averaged some 3 percent above the same period in 1959. The decline in the third quarter was apparently small, less than 1 percent from the record high of the second quarter, but still significantly above the third quarter of 1959 when activity was reduced by the steel strike. Total employment so far this year has averaged about a million higher than in the same months of 1959. In September, employment was a record high for the month. But with one of the largest year-to-year increases in the labor force in recent times, particularly of women, unemployment in September this year totaled close to 3.4 million persons, up about 150,000 from September 1959. Nonagricultural employment, after allowing for usual seasonal changes, has declined slightly since midyear and the hard core of unemployment, those out of work 15 weeks or more, has not shown reductions usual at this time of year. Further, the length of the work week in manufacturing has shortened.

On the whole, the general price level has continued to be fairly stable. The BLS index of wholesale commodity prices is about unchanged from a year ago. In contrast to experience in other recent years, this stability reflects a slight decline in wholesale prices of industrial commodities. Wholesale prices of farm products and foods are now slightly higher than a year ago, although earlier this year they ran under 1959. The BLS index of consumer prices in September was up a little over 1 percent from September 1959. Retail prices of commodities other than foods were about the same. Food prices showed a small increase. But service rates, particularly those associated with medical care, continued to advance. The AMS index of prices paid by farmers for family living items in October was only very slightly above October 1959.

We should note also that this year, there is a cash surplus in the Federal Government transactions with the public in contrast to a substantial cash deficit in 1959. Tight credit has become easier and interest rates have moved lower.

Now let us focus attention on the major forces operating in the economy. Table 1 shows the trends in expenditures from the three main sources of demand --consumers, business, and government--by quarters so far this year.

Table 1--Gross National Product

	1st quarter 1960	2nd quarter 1960	3rd quarter 1960	Change	
	Bil.Dol.	Bil.Dol.	Bil.Dol.	1st to 2nd 1960	2nd to 3rd 1960
Gross National Product	<u>501.3</u>	<u>505.0</u>	<u>503.0</u>	<u>+3.7</u>	<u>-2.0</u>
Personal consumption expenditures	323.3	329.0	328.5	+5.7	-0.5
Private investment	80.5	77.5	74.0	-3.0	-3.5
Government purchases of goods and services	97.5	98.6	100.5	+1.1	+1.9

(Seasonally adjusted annual rates)

Source: U. S. Department of Commerce

Gross National Product continued to rise between the first and second quarters of this year as strength in the consumer sector and an increase in government expenditures more than offset a decline in private investment primarily associated with changes in business inventories. But the increase in real terms was small involving a rate of growth of little more than 1 percent a year. Between the second and third quarters, continued declines in the business sector accompanied by some easing in consumer buying brought an overall reduction in activity although government outlays continued to rise. Again in real terms, the rate of decline was somewhat less than 3 percent a year. Note also that in the third quarter of 1960 consumer expenditures accounted for about 65 percent of total economic activity, government purchases of goods and services about 20 percent, and private investment the remaining 15 percent.

Table 2--Personal Consumption Expenditures

	1st quarter 1960	2nd quarter 1960	3rd quarter 1960	Change	
	Bil.Dol.	Bil.Dol.	Bil.Dol.	1st 1960 to 2nd 1960	2nd 1960 to 3rd 1960
Personal consumption expenditures	<u>323.3</u>	<u>329.0</u>	<u>328.5</u>	<u>+5.7</u>	<u>-0.5</u>
Durable goods	44.2	44.5	42.5	+0.3	-2.0
Nondurable goods	150.5	153.5	153.0	+3.0	-0.5
Services	128.6	130.9	133.0	+2.3	+2.1
Consumer disposable income	347.0	354.1	357.5	+7.1	+3.4
Savings	23.7	25.2	29.0	+1.5	+3.8
Personal savings rate	6.8%	7.1%	8.1%	+0.3%	+1.0%

(Seasonally adjusted annual rate)

Source: U. S. Department of Commerce

The detail for the consumer sector shows fairly broad strength in consumer markets in the first half of the year. Expenditures for durable goods rose slightly but were generally at a high level. Automobile sales were being maintained at a rate well above the 6 million cars sold in 1959 and the highest since 1955. Expenditures for nondurable goods, including food, and for services rose about in line with the increase in consumer income available for spending.

Between the second and third quarters, consumer spending was slightly reduced overall with a substantial decline for durable goods. The rate of automobile sales fell below a year earlier and an increasing proportion was the lower-priced compact cars. There was weakness in furniture and appliance markets reflecting the decline in residential construction. Expenditures for nondurable goods eased slightly but continued well above a year earlier. The uptrend in expenditures for services continued much as earlier in the year. More and more of the consumer dollar is being channeled toward the services, particularly those involving better medical care and recreational activities. Ten years ago, expenditures for services accounted for 33 percent of total consumer spending. This year, services are accounting for some 40 percent.

We should note particularly that consumer disposable income--income after personal taxes--continued to increase throughout this period. Reductions in manufacturing payrolls in the recent quarter were more than offset in the aggregate by increases in unemployment compensation, rising Social Security

payments for the aged, and by the Federal pay raise. With incomes up in the third quarter and expenditures down a little, the rate of personal savings out of current income rose to over 8 percent, the highest rate in two years. Consumer credit outstanding has risen much less so far this year than in the same period in 1959. Although installment credit extended has increased, the gap between extensions of credit and repayments on previous debt has narrowed appreciably. Even so, total credit outstanding now represents over 15 percent of disposable income, the highest on record, while repayments have risen to the equivalent of more than 13 percent of income. It has been noted by some analysts that when repayments on consumer debt exceed 13 percent of disposable income, there is a tendency for consumers to tighten up on spending.

Table 3--Private Investment Expenditures

	1st quarter 1960	2nd quarter 1960	3rd quarter 1960	Change 1st 1960 to 2nd 1960	2nd 1960 to 3rd 1960
	Bil.Dol.	Bil.Dol.	Bil.Dol.	Bil.Dol.	
Private investment	<u>80.5</u>	<u>77.5</u>	<u>74.0</u>	<u>-3.0</u>	<u>-3.5</u>
Residential construction	21.4	21.3	21.0	-0.1	-0.3
Non-residential construction	19.3	19.4	19.5	+0.1	+0.1
Producers' durable equipment	27.1	29.5	30.0	+2.4	+0.5
Change in business inventories	11.4	5.3	.0	-6.1	-5.3
Net export of goods and services	1.2	2.0	3.5	+0.8	+1.5

(Seasonally adjusted annual rates)

Source: U. S. Department of Commerce

Developments in the private investment sector have been largely responsible for the slowing in the economy and the recent decline. Outlays for residential construction have trended downward since early 1959 substantially due to a tight mortgage credit situation. The further reductions so far this year have been relatively small but expenditures for residential construction in the third quarter were down some 7 percent from a year earlier. Although expenditures for additions and alterations have increased, new nonfarm housing starts in recent months have been some 20 percent fewer than in the same months of 1959. A substantial part of the decline has occurred on the West Coast.

Business investment in new plant and equipment, which has been rising since mid-1958, slowed appreciably in the third quarter of the year. Currently, the level of capital outlays is some 10 percent higher than a year ago, but the rise during the recent expansion phase has been less than in the expansion which followed the 1953-54 recession. While much of the increase has been concentrated in purchases of new equipment to improve efficiency, increases have also occurred in construction of new plants and office buildings. Construction on the farm has shown some increase so far this year but sales of farm machinery have been reduced.

There was a sharp changeover in the business inventory situation. In the first quarter of the year, business inventories were being built up at the rate of almost $11\frac{1}{2}$ billion dollars a year, partly a rebuilding of stocks of steel and steel products depleted during the strike. In the second quarter of the year, the rate of inventory accumulation was more than halved to a little over 5 billion. By the third quarter the build-up had ceased and in the last few months, the level of total business inventories has shown some reduction. Even so, business inventories are some 4 or 5 percent higher than a year ago while business sales are up only 1 percent. Stock-sales ratios are higher than in 1959 in manufacturing and in retail trade although not as high as in other recent years.

Our net export balance has shown continued improvement during the year. Commercial exports of merchandise are running some 20 percent higher than a year ago, reflecting high economic activity abroad. Merchandise imports, on the other hand, have shown a small decrease as slackness developed in the economy here. While our net export balance has been improved, it has not been enough to offset our continued large foreign economic and military aid programs and an increased capital outflow, partly reflecting lower interest rates here than abroad and also rising investment abroad by U. S. firms. Thus, the outflow of gold continued heavy.

Table 4--Government Purchases of Goods and Services

	1st quarter 1960	2nd quarter 1960	3rd quarter 1960	Change 1st 1960 to 2nd 1960	2nd 1960 to 3rd 1960
	Bil.Dol.	Bil.Dol.	Bil.Dol.	Bil.Dol.	
Government purchases of goods and services	<u>97.5</u>	<u>98.6</u>	<u>100.5</u>	<u>+1.1</u>	<u>+1.9</u>
Federal	51.8	51.7	52.5	-0.1	+0.8
National defense	(44.9)	(44.7)	(45.0)	(-0.2)	(+0.3)
State and local	45.7	46.9	48.0	+1.2	1.1

(Seasonally adjusted annual rates)

Finally, Government expenditures for goods and services have been rising this year. Most of the increase is due to the steady rise in State and local government outlays to provide public services and facilities for a growing population. The Federal highway program, which is disbursed through the States, has recently been increasing. The rise in Federal Government purchases of goods and services in the third quarter was the first increase in over a year, reflecting the Federal pay raise, enlarged CCC operations for 1960 record crops, and larger spending for defense. However, the level of Federal outlays in the third quarter was still a billion dollars under that of the third quarter 1959, representing substantially smaller outlays for defense than a year ago.

With these recent trends as background, let us look at the changes in demand which are likely to shape the economy in the year ahead. Starting first with the government sector, it seems clear that the contribution of Federal, State, and local governments to economic activity will be substantially greater than in the year just past. According to the budget review issued in October, Federal expenditures are expected to total over 3 billion dollars more in the current fiscal year than in the fiscal year which ended last June 30. A significant stepup is in prospect for outlays for the national defense. A higher rate of new obligations is being incurred and there has been a rise in new orders to manufacturers flowing from the defense establishment. Expenditures by State and local governments will continue to rise much as they have in the past involving a further increase of some 3-4 billion dollars over the year. Here there is some added strength in the highway program.

In the business investment sector, it seems likely that some improvement will occur in residential construction. New housing starts have declined sharply and are near the lows of other declines in the past decade. Purchase terms have been made easier and mortgage funds have become more readily available. However, with vacancy rates in multiple housing units presently higher than a year ago, the prospective increase in residential construction over the year ahead is likely to be quite moderate.

During 1961 we may expect some decline in business investment in new plant and equipment. Industrial capacity is large and in some industries substantially above the current level of operation. Corporate profits have shown a significant reduction. The September survey by SEC-Commerce on business investment intentions indicates that the rise in capital outlays has leveled off with no further increase in sight for the fourth quarter. The National Industrial Conference Board survey of business capital appropriations shows a decline occurred in such appropriations in the first half of 1960. A drop in appropriations for business investment usually precedes actual expenditures by about a year. Yet, it is not likely that the decline that appears to be in view for business capital outlays will be as large as in 1957-58, when they declined by some 15 percent in a 6-month period. Depreciation reserves by corporations are generating a substantially larger and more even cash flow for modernizing and enlarging facilities. The technological race, and particularly increasing competition from abroad, will encourage a fairly high rate of investment even though it may not be as high as this year.

Much of the uncertainty as to the immediate future stems from the inventory sector. With inventory-sales ratios higher than a year ago, an easier supply situation generally, and relatively stable price prospects there may well be some further reduction in the level of inventories in the coming months. But it should not be prolonged. Here again, the impact on the economy is not likely to be as severe as the shift in the inventory situation which took place in the recession of 1957-58. At that time a shift of some 7 billion dollars from inventory build-up to liquidation accounted for almost two-thirds of the reduction in total economic activity. So far this year, however, a considerable changeover in business inventories from a rate of accumulation of over 11 billion dollars in the first quarter to no accumulation in the third quarter has been absorbed with little overall effect on economic activity. It seems likely that most of the impact from a changing inventory situation is already behind us.

The contribution of our net export balance will probably not change much over the year ahead. Economic growth appears to be slowing in some western European countries and there has been some slackening in Canada. Nevertheless, much of the gain in exports realized this year will likely be retained while imports may show some increase as our own economic growth is resumed next year.

Consumer buying, on the other hand, will likely be a strengthening force in the period ahead. As noted earlier, consumer incomes have continued to rise despite some reductions in employment and hours worked in recent months. In the 1957-58 recession, total economic activity declined some 4 percent without significantly reducing the flow of income to consumers or their expenditures. We expect more stability in economic activity in the months ahead than in 1957-58 and consequently an employment situation better maintained. The current savings rate is unusually high and the pause in consumer buying evident in the third quarter will likely give way to enlarged spending. But perhaps we should not expect a vigorous upturn in spending for durables, although the prospective rise in residential construction will likely improve the markets for appliances. Automobile sales, though recently showing improvement, may not be quite as high next year as this year and with compact cars approaching 40 percent of the total market, the average outlay will likely be smaller. Further, consumers still have a record amount of consumer credit outstanding to digest. On the other hand, consumer expenditures for food and other nondurables as well as services should be steadily augmented. Population still grows at the rate of almost 3 million a year. This encourages more spending, particularly for food.

A year ago business sentiment was high and rising. We were leaving the fabulous fifties and entering the soaring sixties. Now, that in this first year of the decade, these expectations have not been realized, the talk has turned to the sober sixties. We are fortunate that the economy itself does not move in such wide swings as man's confidence in the economy.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service
Institute of Home Economics

THE NEED FOR HOUSING IMPROVEMENTS

By Minnie Belle McIntosh, Household Economics Research Division

A considerable body of data is available on family expenditures for housing and for furnishings and equipment. Less is available substantially describing the level of living as to these categories. Expenditure studies usually limit their presentation of such data to counts of families owning the major pieces of mechanical equipment and having the standard facilities in their dwellings. The Censuses of Agriculture and Housing present data on a more limited list of items, the selection being confined to those that show considerable variation in their distribution among different groups of families. The Census presents somewhat more information than most expenditure studies on the housing itself. Two studies by the Household Economics Research Division are reported on here for their unique combination of descriptive data on housing and household equipment and quantitative data on expenditures and the value of consumption. 1/ In combination, these data provide a full description of the level of living of two groups of low-income rural families.

These studies were made to provide data that would be helpful to Extension Service personnel and others working on the Rural Development Program. 2/ They were made in areas designated under the Program as low-income areas. In the first study which covered five counties in Kentucky, three--Cumberland, Metcalfe, and Monroe--the level of farm income has been termed a "serious" problem; in the other two in this group, Barren and Hart, a "moderate" problem. All five counties in the

1/ Expenditures are covered in "The Outlook for Family Living Expenditures Among Low-Income Rural Families," by Laura Mae Webb, consumption in "Outlook for Family Consumption Among Low-Income Rural Families," by Mary Jane Ellis, both presented at the 38th Annual Agricultural Outlook Conference, November 16, 1960.

2/ These surveys were made under the supervision of Jean L. Pennock; bulletins presenting analyses of the findings are in preparation.

second study in Texas, Anderson, Cherokee, Nacogdoches, Rusk, and Smith, are in a State economic area designated as a "serious" low-income area. 3/

The Kentucky survey was made in cooperation with the Farm Economics Research Division of ARS and the Kentucky Agricultural Experiment Station. The field work was done in 1957 and the expenditure data cover a 12-month period in 1956-57. The income data were taken from a Farm Economics Research Division survey of the same group of families and apply to the calendar year 1956.

The second study, in Texas, was made in early 1959 and both the income and expenditure data are for the year 1958. This study was made with the cooperation of the Texas Agricultural Experiment Station.

Both studies deal with the families living in the open country. This segment of the population is a much larger part of the total in the Kentucky than in the Texas area. The Kentucky area had only one town that meets the Census definition of an urban place; its population is about 10,000. The Texas area has a city of approximately 50,000 and each county has one or more towns of at least 9,000. As a result there is considerably more industrial development in the Texas area.

As a result of the presence of more industry in the Texas area than exists in the Kentucky area, the income range among rural families is somewhat greater there than in the Kentucky area. In the latter, 71 percent of the families surveyed had incomes under \$2,500; in the Texas

3/ U. S. Department of Agriculture, Development of Agriculture's Human Resources: A Report on Problems of Low-Income Farmers, p. 8. April 1955.

Three criteria were used in classifying State economic areas under the Rural Development Program. Areas meeting all three criteria were classified as "serious" low-income areas, those meeting two as "substantial," and those meeting only one as "moderate." The criteria were:

(1) A residual farm income in 1949 of less than \$1,000 provided the State economic area had a level of living index below the average for the region and had 25 percent or more of its commercial farms classified as "low production." Residual farm income represents the income (including value of use of home) above operating expenses and a return to capital invested in land and machinery.

(2) A level of living index in the lowest fifth of the nation.

(3) "Low production" farms comprising 50 percent or more of the commercial farms. Low production farms are those with sales of \$250-\$2,499 with the farm operator not working off farm as much as 100 days and farm sales exceeding family income from all other sources.

area, only 54 percent. 4/ The greater concentration of industry in the Texas area and a larger proportion of older people in that area also resulted in a smaller proportion of the Texas than of the Kentucky families being dependent on agriculture. Almost a third of the Kentucky families derived all their income from farm sources while less than a fourth were completely dependent on nonfarm sources. In contrast in Texas, two-fifths of the families derived all their incomes from non-farm sources.

All the families reported on here had incomes of less than \$2,500. A larger proportion of the Texas families than of the Kentucky families had incomes under \$1,500--65 percent as compared with 56 percent.

All but 4 percent of the Kentucky families were white while 32 percent of the Texas group were nonwhite. The nonwhite families in the Texas group tended to be nonoperators to a greater extent than the white; only 53 percent of the nonwhite in contrast to 64 percent of the white families had incomes from their own farming operations. White and non-white families were divided approximately proportionately between the two income classes used here, under \$1,500 and \$1,500 to \$2,500. The proportion of homeowners was approximately the same--almost two-thirds--in the Kentucky and Texas areas and within the Texas area among white and nonwhite families. Because of the small number of nonwhite families in the Kentucky area, color has not been used as a classifier here. As will be seen later, there were sharp differences between white and non-white families in housing and furnishings and equipment in the Texas area. When pertinent, comparisons are made between all Kentucky, Texas white, and Texas nonwhite families.

These low-income families in both Kentucky and Texas were older, on the average, than the U. S. rural population, and the Texas families were older, on the average, than the Kentucky families. Among the latter, 53 percent of the male family heads were 50 years of age or older and 69 percent of the Texas heads were in this age group. The average family size was about the same within the two groups--3.4 persons in Kentucky and 3.2 persons in Texas (table 1). The white families in the Texas sample tended to be considerably smaller than the nonwhite families--2.8 as compared with 4.1 persons.

Because the samples in both surveys were small, they were confined to families that included husband and wife.

4/ In both studies, income is family income after payment of personal taxes. In the Texas study, but not in the Kentucky study, income is net of depreciation on farm machinery and has been adjusted for change in inventory of crops and livestock. These differences reduce the level of income in the Texas area relative to that of the Kentucky group, a fact that should be taken into account in all comparisons involving income classifications.

The collection of data on housing and equipment

One of the areas in which expenditure studies provide least information on levels of living is housing. Out-of-pocket costs fail to reflect the value of the housing occupied by owning families since no return on the owner's equity is included. Moreover, because of the difficulty in determining for farm families the proper apportionment of taxes and mortgage interest payments or rent between the farm business and the family dwelling, it is customary to assign these costs to the farm business in income and expenditure studies. This results in considerable understatement of family expenditures for housing. To remedy these deficiencies, attempts have been made to add to expenditures a nonmoney component representing the occupancy value of the dwelling netted for out-of-pocket expenditures. This has been variously based on the current sale value or the rental value of the dwelling. Such a procedure presents serious problems in the collection of data from farm families since farm houses are neither sold nor rented as housing units separated from their farm land and families, therefore, have no market experience on which to estimate a value for their dwellings.

To obtain a better estimate of the nonmoney component of housing consumption, we have experimented in the Kentucky and Texas studies in the development of an objective measure of the current value of the dwelling. Data descriptive of the housing were obtained by the interviewers during the course of the interview. Current value was subsequently estimated, based on these descriptive data and current local valuations. In the Kentucky study, the State Farmers Home Administration cooperated in developing this section of the schedule, training the interviewers in the grading of construction and depreciation, and providing the component valuations used in estimating the value of the dwelling. In the Texas study, the State Extension Service engineers provided the same assistance.

The interviewers took measurements of the outside dimensions of the dwellings and reported on the presence or absence of a basement. They also reported the type of construction--wood or masonry--and the grade of construction--superior, standard, inferior, and very inferior--in line with instructions given in their training course. They also rated the present condition of the dwelling. In the Kentucky survey they rated on two facets of depreciation, physical and functional. In preparing for the Texas survey, it was decided that determining the degree of functional depreciation--adaptability to today's living--required too much subjective judgment, and it was abandoned. As an aid in reviewing the interviewers' assessment of grade of construction and degree of depreciation and keeping them consistent with one another, the Texas interviewers were provided with box cameras and they obtained pictures of the exteriors of most of the dwellings.

On the basis of these data, a replacement value was computed in the Washington office for the house based on the square feet of floor space, variously priced according to its location within the walls of the dwelling in first or upper floors, or in porches, etc., and according to the

grade of construction. Additional amounts were added for facilities within the dwelling--electricity, central heat, or, in Texas, installed room units, running water, and the individual components of the bathroom. These amounts were also varied in line with their grade. From the resulting total replacement value, the current or depreciated value was obtained in line with the interviewer's estimate of the degree of depreciation. This current value is the base for estimating the year's depreciation; it and the replacement value are the base for estimating the allowances for taxes, maintenance and return on investment which, with the year's depreciation, comprise the value of consumption for the family dwelling.

This work has been experimental and further work in the field is needed. The estimates for nonfarm families in rented dwellings are generally in line with the rents paid by these families, the only group for whom such comparisons can be made. It would, therefore, appear that a valid method of estimating the value of housing is being developed. The interest here, however, is in the descriptive data that is procured in the process.

Data on equipment in the dwellings is part of a large body of inventory information obtained in these studies to provide the basis for calculating the use value of durables as part of the annual value of these families' consumption. The data on mechanical equipment were obtained in response to questions on a list of such items. Data on other major furnishings were gotten, in most cases, by the interviewer going through the house room-by-room and listing the major furnishings.

Houses occupied

In both the Kentucky and Texas survey areas the houses of families with net money incomes under \$2,500 were generally relatively small and poorly constructed. For example, in Kentucky 23 percent of the low-income families lived in houses that had less than one room per occupant. Sixty-three percent of the houses were judged to be of inferior, and 20 percent more to be of very inferior, construction (table 2). Not only were a majority of the houses of inferior construction, but 48 percent were severely depreciated, another 33 percent moderately depreciated.

The Texas dwellings were, on the average, superior to the Kentucky dwellings. Within the Texas group, the dwellings of white families were generally superior to those of the nonwhite. Measured in terms of the year's consumption of housing, a summary figure weighting together all the aspects of housing, the Kentucky dwellings tend to fall between the averages for those of the white and nonwhite Texas families. If the Kentucky average is taken as 100 percent, the Texas average is 116 percent, which breaks into 139 percent for the white component and 66 percent for the nonwhite.

Among the low-income families in the Kentucky area the dwellings of nonfarm families tended to be better than those of farm families but the

reverse was true among the Texas families. In both areas the dwellings of owners were better than those of renters.

The Kentucky dwellings were not inferior to the Texas dwellings in all respects. They tended to be somewhat larger than the Texas dwellings, containing about 1,130 square feet compared with 925 in the Texas sample. The greater frequency of two-story structures, which can be built at a lower cost per square foot of floor space, in the Kentucky area probably accounts for much of this difference. Among the low-income Texas families, the homes of white families were, on the average, about 45 percent larger than those of nonwhite families. Among the Texas white families, the average house contained about 1,020 square feet; among the nonwhite families, about 715 square feet. When one takes into consideration in addition, the fact that the average white family in this group had 2.8 persons, while the average nonwhite family had 4.1 persons, it is evident the nonwhite families were much more crowded than the white.

The Texas sample of low-income dwellings included proportionately more than in Kentucky that were of standard or superior construction--26 as compared with 17 percent--but also more that were of very inferior construction--37 as compared with 20 percent. Within the Texas sample, there was considerable divergence in the grade of construction, dwellings of nonwhite being much poorer than those of white families. Among the latter, 70 percent were of very inferior and 25 percent of inferior construction.

As to facilities, houses in the Texas sample were somewhat better than the Kentucky ones. In both samples, electrification was almost universal but it was slightly more widespread in Texas than in Kentucky (table 3). In the latter area 93 percent of low-income homes were wired, in Texas 97 percent. In Kentucky farm and nonfarm families had electricity in equal proportions. In Texas 1 percent of farm families and 5 percent of rural nonfarm families were without electricity. Some of the difference in the proportion of families having electricity may be due to the fact that the Kentucky collection was made approximately 18 months earlier than the Texas survey. There was an increase of 3 percent between 1957 and 1959 in the number of farmers (all income levels) in the State of Kentucky whose homes were wired for electricity. 5/

Low-income white families in Texas were much more likely to have piped running water in their homes than were the low-income Kentucky families, 64 percent as compared with 19 percent. Kentucky families with incomes between \$1,500 and \$2,500 were more than twice as likely to have running water in their homes than those with lower incomes; among the low-income white Texas families there was practically no difference by income level. Only 5 percent of the nonwhite Texas families had running water. All of the Texas nonwhite families that had running

5/ U. S. Department of Agriculture, Agricultural Statistics, table 806, p. 699, 1957 and table 814, p. 588, 1959.

water also had flush toilets; about three-fourths of the white Texas families and two-thirds of the Kentucky families that had running water had flush toilets. Virtually none (1 percent) of the Texas families had central heat or built-in room heating units. In the Kentucky area, where the climate is somewhat more rigorous, central heat was only slightly more common.

Telephone facilities are the exception rather than the rule in rural areas, although there is considerable variation by geographic area. In 1959 the percent of farmers (all income levels) with telephones ranged from 45 percent in East South Central States to 88 percent in New England. 6/ Whether or not individual rural families, especially in the lower income ranges, can have telephone service and electricity depends in part upon whether utility companies have lines in the vicinity of their homes. In 1957, 14 percent of the low-income Kentucky families surveyed in the rural areas of the five counties had telephones. Those with incomes between \$1,500 and \$2,500 were more likely to have a telephone than those with incomes under \$1,500. Among the low-income Texas families, 26 percent of the white families but only 5 percent of the nonwhite families had telephones.

Mechanical equipment

Practically all of the families in the \$1,500-\$2,500 income bracket in the survey areas of both Kentucky and Texas had mechanical (electric or gas) refrigerators (96 percent and 97 percent, respectively) (table 4). Ownership rates were somewhat lower among the Kentucky families with incomes under \$1,500 and Texas nonwhite families--86 percent and 90 percent. Freezers were owned by a much larger proportion of Texas families than of the Kentucky families (24 percent versus 15 percent) even though Texas families produced less of their own food. Some small part of this difference may be occasioned by the fact that the Texas survey was conducted later. Among the Kentucky families, those who had some farm income were more than twice as likely to have a freezer as families who had no farm income.

There was a substantial difference in the rate of ownership of mechanical washing machines in the two areas; a considerably higher proportion of the Kentucky families than of the Texas families owned such equipment. White Texas families were more likely than nonwhite to own a machine but among them the proportion owning was only 72 percent. The different patterns as to the ownership of washers in the two areas may stem in part from the southern tradition of "sending the washing out" and the availability of Negro domestic help. The presence of "washeterias" in the more numerous and larger towns in the Texas area may also have made individual ownership less necessary.

6/ U. S. Department of Agriculture, Agricultural Marketing Service, Crop Reporting Board, Pr. 4 (7-59), and Agricultural Prices, p. 29. March 15, 1960.

On the other hand, Texas families were much more likely to own gas or electric ranges than were the Kentucky families. Ownership of such ranges was very high for white Texas families--94 percent compared with 57 percent for the nonwhite families. Among Kentucky families, ownership rates were much higher for those with incomes over \$1,500, 72 percent as contrasted with 51 percent; among the Texas families this was not the case--80 percent of those with incomes under \$1,500 and 86 percent of those with incomes between \$1,500 and \$2,500 had gas or electric ranges.

Ownership rates for vacuum cleaners were relatively low in both areas. Only 23 percent of the Kentucky families and 24 percent of the Texas families with incomes under \$2,500 owned vacuum cleaners. In the latter area, white families were much more likely to own vacuum cleaners than were nonwhite families.

Surprisingly, ownership of self-heating hand irons appears to be somewhat influenced both by income level and race. In view of the relatively low cost of this type of equipment, one might have expected practically all families with wired homes to have such equipment. However, in both areas, a moderate number of families in the under \$1,500 income bracket that had electricity did not own electric irons; among the nonwhite families in Texas, ownership rates were substantially lower than those for white families.

Almost all families had either a radio or a TV set; in Kentucky 6 percent and in Texas only 4 percent were without one or the other. As one would expect, a considerably smaller number of families in both areas owned TVs than radios. For families with incomes under \$1,500, the TV ownership rate of the Texas families was substantially higher than that of the Kentucky families. In the Texas area white families were much more likely to have a TV set than were nonwhite families. One would expect a lower ownership rate among the Kentucky families both because of the earlier date of the survey and the distance most of the respondents lived from cities of a size likely to have transmitting facilities. According to Census reports, TV ownership rates of rural families throughout the United States increased nearly 10 percent between April 1957 and May 1959. 7/

About three-fourths of both the Kentucky and white Texas families had a sewing machine (either electric or treadle). The nonwhite family in Texas was much less likely to have a sewing machine than was the Kentucky or white Texas family in a comparable income range.

Probably because of the warmer climate, a higher proportion of Texas families than Kentucky families owned electric fans. In both areas, families with incomes over \$1,500 were much more likely to own electric fans

7/ Bureau of Census, Current Housing Reports, Series H-121, No. 6, p. 2. August 1959.

than were families with incomes under \$1,500; among the Texas group, the proportion of white families owning electric fans was nearly twice as great as that of nonwhite families.

Outlook for improvement

Although the foregoing presentation has indicated the need for improvement in housing in both areas, it would be unrealistic to expect rapid change. Improvement in housing comes slowly, more slowly than in the related field of furnishings and equipment, for instance.

This situation exists for a number of reasons. In the first place, any major improvement in housing takes a considerable outlay of money. Many families will hesitate to commit themselves to relatively large outlays extending over a period of years, and some families who might be willing to do so, do not have the necessary credit. In the second place, the improvement of housing takes more resourcefulness on the part of the family than does the purchase of a readymade piece of equipment. Much of this kind of work requires some knowledge and some imagination on the part of the family, even if they do not do the work themselves. If it were possible to go to store, buy a finished bathroom, bring it home, and have nothing more to do than perhaps to plug it in an electric outlet, rural families might have bathrooms to the same extent they now have mechanical refrigerators. Since this is not possible, it is not hard to understand why they choose to use their limited resources mostly on discrete items that are easily purchased and "guaranteed to give satisfaction."

Perhaps equally important with cost and ease of acquisition in determining how much improvement can be expected in housing is the influence of standards on the patterns of the individual family. In housing, as in other areas of family living, the individual family's pattern will be limited by the standards of the community. In a community in which most housing is poor, there will not be the same incentive to make even minor improvements or repairs to the individual poor house as in a community in which it is surrounded by good houses. It would appear also that standards of housing are determined locally, by the immediate community, to a greater extent than standards in some other areas of family living. Housing standards are less affected by nationwide advertising, nationwide merchandising, and the news media than are standards as to automobiles and clothing, for example.

Two other factors peculiar to these low-income areas may also operate to limit improvements to housing. The first of these is the loss of population from these areas. To the extent that this results in a surplus of housing units, improvement will be slowed, for there will be less pressing need for new units and it is through new units that change is most easily introduced. The second is the disproportionate number of older people in these areas. These families will have neither the means nor the desire to change their housing that a younger group would have.

It would not be assumed from the foregoing that it is impossible to bring about improvements in housing. The high proportion of wired houses in these samples is evidence that improvements are made. It can be assumed that if the Rural Development Program is successful in raising the income level of these areas, improvement in housing will follow. Two Government programs will make such improvement easier. The Federal Housing Administration has cut the minimum downpayment required of a homebuyer who obtains an FHA insured mortgage. The Farmers Home Administration has relaxed its regulations so that farmers who obtain a substantial portion of their income from nonfarm sources may now be able to qualify for loans to build a new home or repair or modernize an existing home. To qualify for such a loan in previous years, the applicant had to obtain a substantial portion of his income from farm sources.

There is some evidence from these surveys that the installation of piped running water and bathrooms in homes is related to level of income, perhaps better incomes will lead to an improvement in housing in this respect.

Relatively few of these low-income families had telephones. The percent of farm homes with telephones is one of the factors used by the USDA in evaluating the level of living of farm families. It seems appropriate, then, to consider that an increase in the percent of phones in homes of rural farm and nonfarm families would raise the level of living of these families. However, I do not think we can expect many of these low-income families to install telephones even if such facilities are available in their area, unless they are fortunate enough to have a very substantial increase in income, or there is a substantial decrease in the charge for telephone service. The average monthly local telephone bill reported by farmers for July 1959 in the East South Central States was \$4.57; in West South Central States \$4.39. ^{8/} An installation fee must frequently be paid when service is first installed in a home; this would be another deterrent to low-income families. For low-income families a yearly bill of about \$55 constitutes a major expenditure. Furthermore, the advantage of having a telephone is limited unless ones' neighbors also have them.

There is evidence in these studies that the ownership of many types of equipment is related to income level. It is, therefore, probable that any appreciable increase in rural families' incomes will lead to the purchase of such equipment.

If those low-income rural families that move into higher income groups do increase their ownership of household equipment, they will likely find the 1961 market more advantageous to them than they would have last year. According to the Consumer Price Index, in mid-1960, prices for sewing machines, washing machines, vacuum cleaners, refrigerators, ranges, and radios were lower than in mid-1959 and prices of TVs and electric toasters were lower than at the end of 1959. We have no reason at this time to think that such prices will increase next year.

^{8/} U. S. Department of Agriculture, Agricultural Marketing Service, Agricultural Prices, p. 62. April 29, 1960.

Table 1.—Size of dwelling and value of housing consumption by selected family characteristics, two low-income areas in Kentucky and Texas

Area and family characteristic	Families	Family size ^{1/}	Size of dwelling	Annual consumption value of housing
	<u>Number</u>	<u>Number</u>	<u>Square feet</u>	<u>Dollars</u>
<u>South Central Kentucky, 1956-57 2/</u>				
All families	245	3.4	1,131	261
Income level <u>3/</u> :				
Under \$1,500	138	3.2	1,067	217
\$1,500-\$2,499	107	3.6	1,213	317
Income source:				
Some farm income	189	3.4	1,155	256
No farm income	56	3.2	1,048	277
<u>East Texas, 1958 4/</u>				
All families	190	3.2	925	302
Income level <u>3/</u> :				
Under \$1,500	124	2.9	937	311
\$1,500-\$2,499	66	3.7	902	286
Income source:				
Some farm income	115	3.1	997	335
No farm income	75	3.3	814	252
Color:				
White	130	2.8	1,022	363
Nonwhite	60	4.1	714	172

1/ In year-equivalent persons.

2/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties.

3/ Family income after personal taxes; Texas net of depreciation on farm machinery and change in inventory of crops and livestock; Kentucky not adjusted.

4/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 2.-Grade of construction and degree of depreciation of dwellings by family characteristics, two low-income areas in Kentucky and Texas

Area and family characteristic	Grade of construction				Degree of depreciation			
	Superior	Standard	Inferior		None	Minor	Moderate	Severe
			Percent	Percent				
<u>South Central Kentucky, 1956-57 1/</u>								
All families	1	16	63	20	1	19	33	48
Income level 2/:								
Under \$1,500	0	12	62	26	0	14	34	51
\$1,500-\$2,499	2	22	65	11	3	24	30	43
Income source:								
Some farm income	0	17	64	19	1	17	31	51
No farm income	4	12	62	21	2	23	37	37
<u>East Texas, 1958 3/</u>								
All families	1	25	37	37	2	13	42	43
Income level 2/:								
Under \$1,500	0	25	39	36	2	17	40	42
\$1,500-\$2,499	2	24	35	39	3	6	47	44
Income source:								
Some farm income	1	30	34	35	2	14	43	42
No farm income	0	16	43	41	3	12	41	44
Color:								
White	1	34	43	22	3	17	45	35
Nonwhite	0	5	25	70	0	5	35	60

Note: Percentages may not add to 100 due to rounding.

1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties. 2/ Family income after personal taxes; Texas net of depreciation on farm machinery and change in inventory of crops and livestock; Kentucky not adjusted. 3/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 3.--Facilities in dwellings by selected family characteristics,
two low-income areas in Kentucky and Texas

Area and family characteristic	Electricity	Telephone	Piped running water	Flush toilet
	Percent	Percent	Percent	Percent
<u>South Central Kentucky, 1956-57 1/</u>				
All families	93	14	19	12
Income level 2/:				
Under \$1,500	91	9	12	7
\$1,500-\$2,499	96	21	28	19
Income source:				
Some farm income	93	13	19	11
No farm income	93	18	21	14
<u>East Texas, 1958 3/</u>				
All families	97	19	45	35
Income level 2/:				
Under \$1,500	98	23	44	33
\$1,500-\$2,499	95	14	48	38
Income source:				
Some farm income	99	19	48	37
No farm income	95	20	41	31
Color:				
White	98	26	64	48
Nonwhite	95	5	5	5

1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties.

2/ Family income after personal taxes; Texas net of depreciation on farm machinery and change in inventory of crops and livestock; Kentucky not adjusted.

3/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.

Source: Unpublished data from U. S. Department of Agriculture,
Household Economics Research Division, IHE.

Table 4.--Household equipment by selected family characteristics, two low-income areas in Kentucky and Texas

Area and family characteristic	Mechanical refrigerator	Gas or electric range		Washing machine		Self-heating hand iron		Vacuum cleaner		Sewing machine		Radio		Television set		Electric fan	
		Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
South Central Kentucky, <u>1956-57 1/</u>	90	15	60	87	91	23	73	88	88	45	45	42	42	42	42	42	42
All families																	
Income level 2/:																	
Under \$1,500	86	9	51	82	88	16	72	88	88	36	36	35	35	35	35	35	35
\$1,500-\$2,499	96	22	72	93	95	33	75	89	89	56	56	50	50	50	50	50	50
Income source:																	
Some farm income	92	17	64	93	92	22	78	89	89	47	47	37	37	37	37	37	37
No farm income	84	7	46	64	88	29	57	84	84	38	38	57	57	57	57	57	57
East Texas, 1958 3/																	
All families	96	24	82	62	92	24	78	85	85	58	58	66	66	66	66	66	66
Income level 2/:																	
Under \$1,500	95	28	80	63	90	23	81	83	83	55	55	62	62	62	62	62	62
\$1,500-\$2,499	97	17	86	58	94	27	71	89	89	62	62	74	74	74	74	74	74
Income source:																	
Some farm income	96	27	80	69	93	29	83	92	92	54	54	69	69	69	69	69	69
No farm income	96	19	86	50	89	18	69	74	74	64	64	61	61	61	61	61	61
Color:																	
White	98	27	94	72	96	31	85	85	85	65	65	78	78	78	78	78	78
Nonwhite	90	19	57	40	82	8	63	84	84	42	42	42	42	42	42	42	42

1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties. 2/ Family income after personal taxes; Texas net of depreciation on farm machinery and change in inventory of crops and livestock; Kentucky not adjusted. 3/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.

Source: Unpublished data from the U. S. Department of Agriculture, Household Economics Research Division, IHE.

OUTLOOK FOR APPAREL AND TEXTILE HOUSEFURNISHINGS IN 1961

by

Ethel D. Hoover, U.S. Department of Labor
Before The
Agricultural Outlook Conference
Washington, D. C., November 1960

The outlook for apparel and textile housefurnishings for 1961 is made this year at a time when prices of these goods at retail have shown a slight upward drift, wholesale prices are fluctuating in a relatively narrow range, production of apparel and home goods has risen for several years, supplies of materials continue to be adequate or even abundant, inventories are not excessively large, per capita disposable personal income (in constant dollars) is on an up trend, and the retail sales picture for apparel and textile housefurnishings is moderately optimistic. In a nutshell then, the picture at present is not one of major or dramatic changes, and the outlook for apparel and textile housefurnishings in 1961 seems to fit into this same general frame.

I would like to review what has been happening to prices, to trends in uses of textile fibers, as well as indicating a few directions in product development that seem likely to emerge during the coming year.

Trends of apparel and housefurnishings prices

Since the end of the war, retail prices for apparel as a group (including footwear) have shown less increase than on any of the 8 major groups 1/ in the BLS Consumer Price Index (CPI). It was not until September of this year that the apparel index reached a level as high as 10 percent above the three postwar years 1947 to 1949, compared with almost 27 percent for all commodities and services. As Chart I shows, the fluctuations in apparel prices, both up and down, have been very moderate, particularly since the Korean period. With the difficulties in the textile industry after Korea, retail apparel prices edged downward through the first part of 1955 to 3 percent above 1947-49. Since that time they have moved upward at a relatively slow pace (the average for the year 1956 was 5.5 percent above 1947-49, 1957 was 6.9 percent above, 1958, 7.0 percent and 1959, 7.9 percent) and have continued to do so during the first 9 months of the current year.

In order to make a quick comparison for an even longer period, Chart II shows the total CPI and the Apparel group from 1939 to date. As you can see, the increases in apparel prices during World War II and the immediate post war years brought the BLS apparel index to a level double the prewar average. In 1949, prices started declining and then increased again during the Korean incident. The subsequent decline and minor changes since, have, as the chart shows, put retail prices of apparel at almost the same level above prewar as all items in the index.

1/ The 8 major groups referred to are Food, Housing (including rent, home maintenance, gas, electricity and fuels, household operation, and textile and other housefurnishings), Apparel (including footwear), Transportation, Medical Care, Personal Care, Reading and Recreation, and Other Goods and Services.

Our retail prices series for textile housefurnishings (one of the components of the Housing group) shows almost the same pattern of change. Prices went down in the postwar years until Korea, shot up temporarily (sheets, for example, went up more than 20 percent from 1951 to 1952), and then dropped slowly through the first part of 1955. Increases from the low point of 1955 were very small, with those in the past year somewhat larger than in the few preceding years. In the past year, from September 1959 to September 1960, the increase for textile housefurnishings amounted to 1.3 percent, compared with a 3.4 percent decline in the preceding 6 years. (See table 1.)

The averages, of course, are made up items which may show different price movements. For the apparel group, the individual items have been grouped in two different ways. Chart III shows the trends in prices separately for men's and boys', women's and girls', and other apparel. As you can see, prices for men's and boys' clothing have increased more than for the other two subgroups — 12 percent since 1947-49, as compared with 1 percent for women's and girls' and a decline of 7 percent for "other"; and in the past year 2.7 percent for men's and boys' and 1 percent or less for the other two subgroups.

When the individual apparel items are classified according to major fiber content, the reasons for the differences are apparent. Men's and boys' clothes are still primarily wool and cotton. In women's clothing, the manmade fibers play a more important role. Chart IV shows what has been happening to prices of apparel classified by major fiber. Since 1953, wool apparel of all kinds have increased 4 percent, cotton apparel 6.5 percent, while manmade fiber apparel has gone down 6.0 percent.

The somewhat higher apparel prices this year are linked (although how closely is difficult to tell) with the healthier condition of the textile industry that was apparent last year. Retail sales for the first 8 months of this year have also been higher than for a like period last year. Estimates by the Department of Commerce indicates a sales gain of about 3 1/3 percent for men's and boys' wear and 1 1/3 percent for women's and girls' wear. Expectations in the retail trade are that sales of apparel for the year will be about the same as last year or somewhat higher.

I would not venture to make a specific forecast of what prices will be by next year, especially not for specific groups of items, but I would like to give you a summary of where a synthesis of opinions points.

As has been said many times before, the consumer is the key to production and sales. Consumer buying has shown little inclination to curtailment, in apparel as in many other lines. Although the dollar volume of retail sales of apparel and housefurnishings has not shown a great spurt, it has shown increases somewhat greater than would be accounted for by population growth.

Materials, supplies and production capacity are no problem to apparel and textile homefurnishings manufacturers in peacetime. However at present, there are a number of people in the trade who are uncertain or uneasy about the general economic outlook next year and there are reports of cautious or conservative advance orders in a number of apparel lines. 1/

With these signs of sustained but not greatly increased buying, both by retailer and consumer, and with no apparent general pressures on prices either upward or downward, I would expect that prices of apparel and housefurnishings will continue to show relatively small changes during the next year (other than the normal seasonal changes) with perhaps a slight upward drift.

Trends in the use of Textile Fibers

The development of products in the textile field is exciting and dramatic, particularly when you look back and make comparisons with prewar. The attention that new products receive in news stories and in advertisements obscures to some extent the major role that products of the natural fibers play in apparel and textiles.

In 1959, cotton and wool represented almost 70 percent of the civilian per capita consumption of the major fibers used in the United States for all purposes. This is, of course, a reduction from earlier years. Table 2 shows the continued but lessened relative importance of cotton in per capita fiber consumption. I also have a chart that shows the picture at 10-year intervals. As you can see, the major reduction in the share of cotton occurred from 1940 to 1950. In 1940, cotton was about 80 percent of the per capita use of all major fibers. By 1950, its share had been reduced to 66 percent with rayon and acetate growing in importance. The reduction in use of cotton since 1950 has been continuing as nylon and other manmade fibers have increased in importance, but the reduction has been at a slower rate than in the preceding 10 years. In the 30 years between 1920 and 1950, wool varied somewhere between 9 and 13 percent of total per capita consumption. Since 1950, wool's share has fluctuated around 8 to 8½ percent of the total. After the dramatic increase in rayon and acetate from practically nothing in 1920 to just over 20 percent of

1/ In children's wear, for example, a recent trade paper stated that forward buying "varies anywhere from great cautiousness to a slight tinge of optimism."

Christmas sales expectations in many lines are very temperate. In one account, it stated that "general business conditions have not been good and there is no evidence of any exciting holiday developments."

the total in 1950, we find the proportions of the cellulosic fibers remaining at about the same level in the past decade. But in the post-war period, the newer manmade fibers (shown as "other" in the table) are duplicating the prewar rayon picture. By 1940, rayon had displaced the older fibers to the extent that it was 11 percent of the total. In 1959, we find rayon and acetate in a fairly stable position, with other manmade fibers representing 11 percent.

During the next year, some changes may occur in these proportions of fiber used, but I would expect such changes to be relatively minor. As many of the studies made by the U.S. Department of Agriculture show, preferences for apparel of cotton and wool are strong. For most outer clothing for cold weather, wool is preferred by a high proportion of adults and people of younger ages, except for sweaters where orlon represents a third or more of all sweaters purchased. For outerwear for summer, cotton clothing secured the most votes primarily because the people surveyed felt that cotton wear was easy to wash and iron. One exception was the summer weight dacron blouse, which was popular because little or no ironing was required.

In addition to some fairly strong consumer preferences, the use of natural fibers in blends with the manmades will undoubtedly continue, possibly in greater volume than we have seen in the past few years.

Product Development in the Textile Field

In reviewing the accomplishments in product development in textiles and apparel in the recent past, I was particularly impressed with several trends that seem to give the direction of the developments we can expect next year. Since the myriad changes of greater or less importance that have occurred in the textile field could not possibly be covered in this hour, I am limiting my observations generally to three points - blends, trends to lighter weights, and easy care.

Blends - In the word maze and the attention given to manmade fibers, it is a seeming contradiction that the natural fibers continue to hold the major spot and account for the most significant portion of per capita fiber use, as I mentioned earlier (about 70 percent in 1959). The appearance, feel, variety of choices and durability of fabrics, garments and other products of the natural fibers still constitute the standards by which the consumer judges the products of manmade fibers. Some of the consumer dissatisfactions stem from the deficiencies in the performance of some of the manmades, not only because they have not lived up to miracle claims, but also because we make comparisons with the natural fiber products (even though we may make these comparisons unconsciously). Thus it is expected the natural fiber products will undoubtedly continue to maintain dominance in use in the immediate future, not only because of their use apart from the manmade,^{1/} but also because many of the newer fibers have been more satisfactory in performance and appearance when they are combined in some way with the natural ones. I have been unable to find figures showing trends in the

^{1/} The many finishes that have been developed in recent years for natural fiber fabrics in recent years have also helped the natural fibers to maintain their position.

proportions of cotton, wool, and silk that have been used in blends but all indications are that an increasing proportion is being used in combination with the synthetic fibers.

One textile authority has indicated that the experiences with blends in recent years had led to the acceptance by producers that the most successful present application of manmade fibers is in blends with natural fibers. In his opinion, blending is "far more than a technical and commercial device. It is the birth of a new art" and that manmade fibers do not replace the natural but "improve them by compensating for nature's deficiencies in performance." 1/

More satisfactory performance when manmade fibers are blended with the natural fibers, however, is not the only value we receive from these blends. The standard of living of the American people should not always be judged by the volume of things we have, but also by the intangible satisfactions that we attain in our everyday life by the variety of choices we can make. Helping to provide these intangible satisfactions is the great variety in performance, color, texture, look, feel, and other characteristics appealing to our physical senses and to our sense of beauty that are made available through the use of nature's textile fibers combined with chemistry's fibers. If at this stage, I seem to be glossing over some dissatisfactions with performance, I only want to say that in my opinion the good very much outweighs the bad.

To come back to blends and the consumer, the new rules and regulations issued by the Federal Trade Commission under the Textile Fiber Products Identification Act (Effective March 3, 1960) provides for identification of all fibers used in any article if the fiber is present in the amount of more than 5 percent. Such identification must be according to the generic names, 2/ although fiber trademarks may also be used. Through these identification provisions, the consumer will, of course, know fiber content but what is still missing on the labels are expectations of performance. Even in this field, however, we have come a long way from the time when we only knew whether a garment was washable or had to be dry-cleaned. In addition to some label information that provides better guides on garment care, there are more and more reports becoming available to the

1/ "Whither Man-Made Fibers" by Charles de Cizancourt. American Fabrics No. 50, Summer 1960, pages 45-52.

2/ The rules and regulations provide the definitions for the following generic names for manufactured fibers: Acrylic, modacrylic, polyester, rayon, acetate, saran, azlon, nytrol, nylon, rubber, spandex, vinal, olefin, vinyon, metallic, and glass. A list of trade and fiber names also appear in American Fabrics, No. 47, Fall 1959 and in various issues of Textile Organon.

general public on performance. I have recently seen in a trade magazine a preliminary report on a new fiber that included the results of scientific tests of performance under various conditions, including blend levels.

This coming year will undoubtedly bring forth an even greater variety of blends than we now have, with a greater number of them blends of manmade and natural fibers.

Trends to lighter weights - Some years ago, the BLS had in its list of priced items for the CPI a man's suit of 14-15 oz./yd. worsted fabric. This was the standard suit throughout a large part of the United States for year-round wear. The typical summer dress suit was an all-wool tropical worsted made of 10 to 11 oz. per yard fabric. This was prewar. By 1952, the most popular year-round suit was made of 13-13½ oz. per yard, the tropical worsted was generally 9-10 oz./yd. and a variety of other kinds of lighter summer suits were being sold in volume. This year the heaviest year-round suit priced is a 12-12½ oz. per yard with a substantial number of quotations as low as 10 oz. per yard. The summer dress suits are also lighter, 8 oz. per yard or less, and of course come in a variety of fibers and blends - e.g. all wool, wool and dacron, rayon and dacron, dacron and cotton. I mention men's suits because they provided the first clear indication to us of the gradual change to lighter weight fabrics in the men's wear industry. This trend has been continuing at a faster pace recently in most of the various categories of apparel.

It seems to me that with the changes in our way of life (less exposure to cold through better home, office, school and factory heating, heated public conveyances, and the use of private automobiles) this trend to lighter weight apparel, blankets, and other textiles is one of the most sensible developments that has occurred from the point of view of our needs. Necessary warmth is provided with reduction in weight. Our comfort during warm weather is greatly increased.

The reduction in weight has been achieved by the textile industry through a variety of means. To mention only a few - use of lighter weight fibers, use of different weaves, fiber blends, and fiber treatments.

One of the specific developments you will notice in the fabric field this fall and winter is the use of foam and new synthetic fibers to achieve warmth without weight. A layer of foam about 1/32 of an inch in thickness, whose ingredients are many of the same chemicals as in the new synthetic fibers, is laminated to fabric through heat fusion or by an adhesive. The foam, which acts as an interlining, is said to allow "excessive body moisture to evaporate." Some of the fibers that have been used only for sweaters or shirting fabrics up to this time are now being used for outdoor garments. The weight of a garment made of these laminates is very much

less than the older fabrics. One description of short outdoor coats for men stated "The old sheeplined coats and the famous Mackinaw were weighty defenses against the elements, but you had to be in pretty good shape to wear them. The fabrics used in those old outdoor coats weighed anywhere from 32 to 40 ounces per yard of fabric; the new foam interlinings weigh 2 to 4 ounces per yard." 1/

With the lighter weight outer fabrics bonded to these foam interlinings, the coat itself is anything but a weighty matter. I would expect to see greater use of these laminated fabrics during the next year in rainwear, jackets, and sweaters for all members of the family. The promotional descriptions of these fabrics would indicate a rosy future in the way of satisfaction but, in the time I had, I could not locate the results of any performance tests, although advertisements state that they are washable.

Another development which deserves mention is the expected extension in the uses of elastic threads and fabrics. One manufacturer said that "the progress from the first elasticized fabrics to the latest two way stretch has been the progress from relative ease to almost sinful comfort." The strong but very fine elastic threads that have been developed in recent years will probably show up in great volume in stretch fabrics, particularly in women's undergarments, but probably in other items as well. One new fabric of two-ply worsted and wrapped elastic yarn is quite light weight and is being suggested for stretch pants. Another fabric I would expect to see more generally used in girdles, brassieres, and perhaps swim wear is a light weight, machine washable, rubberless, stretch spandex satin. The light weight leno weaves with elastic threads are also being used in increasing volume for strapless underwear.

The light weight nonwoven textiles^{2/} are expected to be used to an increasing extent, particularly for light weight inexpensive structural interlining for wash and wear clothing. One new product is made of dacron and tests of its uses as interlining would seem to indicate a very high performance, particularly on dimensional stability and capacity to recover from creasing. Because of their porosity and very light weight, such fabrics may prove particularly satisfactory in summer clothing. Possibilities of their application for industrial and other apparel uses are under consideration.

Even for fur coats, this trend to lightness is proceeding. The Washington Daily News, early this month, 3/had a picture entitled "Cloud Weight." The 3/4 length fur coat pictured was described as beaver treated with a new process that made it light weight as well as warm. The wrap was reported as weighing less than 5 pounds.

1/ New York Times Magazine, September 11, 1960 - Report on Men's Wear, p. 91.

2/ Sometimes called "web textiles."

3/ November 3, 1960, page 46.

Easy care - The increasing use of finishes and of specially developed fibers that allow us to "wash and wear" or "drip dry" with little or no ironing is too well known and so comparatively recent that I won't take the time to recount development. What I would like to do is to talk a bit about consumer acceptance of the products advertised with one or more features promising easy care and some developments that may decrease complaints.

Most of us are willing and eager to include in our budget new or improved things if we feel that they will be of value to us — particularly if they will require less work. "Easy care" garments were embraced very widely particularly by women with small children. But complaints were soon forthcoming — primarily because consumers were inclined to take exaggerated selling claims at their face value and could not, without additional information, know how the garment should be handled or what to expect in the way of performance. Bit by bit, realistic information is being made available through various means - the industry, women's magazines, your own Department of Agriculture, testing laboratories and similar organizations. As early as 1958, the National Association of Shirt, Pajama and Sportswear Manufacturers set standards for clarification of terms used in selling and advertising. These standards are expressed in every day language with a minimum of technical words. Other efforts in this direction, as well as various technical developments in fibers and finishes have been proceeding to eliminate the sources of complaint and to provide a true wash and wear fabric. The new polyester fiber referred to above is being promoted as "unbelievably advanced in wash and wear performance" and publicity states that tests have been certified by the United States Testing Company. A finish on cotton introduced about a year and a half ago is proving satisfactory. It is said to be by the producer of course the "outstanding success of the no-iron age." Gradually the idea is being dispelled that for some "wash and wear" items, no ironing is needed. I understand that advertising its new spray steam iron, General Electric Company has three "wash and wear" settings on the dial for use on different types of synthetics.

Fibers - The fact that I have limited my comments to these subjects does not mean that I think the development of new fibers is now past. Quite the contrary. There are many new fibers now in the experimental or early production stages, either here or abroad, that we can expect to find in some form or other in the American market during the coming year. I feel constrained to make a few comments about them.

One progress report near the end of 1959 stated that "noncellulosic fibers in the manmade field are causing the greatest surge of activity ever experienced in the textile-fiber field in the United States. New fibers are constantly coming into the market and the saying 'Where will it all end' does give food for thought. Thus, the 'Battle of Textile Fibers' is again with us and will be for some time to come. The first battle was in

1955-56, and was rather indecisive in many respects. Some fell by the wayside, others advanced in popularity and usage. This new battle shaping up will likely come into full bloom in the Fall of 1960, and it will definitely be a real battle for survival." 1/ The bewildering array of new fiber names and the impressive listing of their properties in trade publications bear out this forecast.

In the last year or so, we have seen the introduction of a new domestic acrylic fiber (of which the best known is Orlon) which is reported to have the softness and easy care properties of earlier acrylics, and to overcome two deficiencies leading to consumer complaints — pilling and a color range limited to pale pastels and whites. It is said to have greater resistance to pilling and readily accepts strong dyes but resists water thus retaining the quick drying properties. (This is a hydrophobic fiber).

A new polyester fiber, the product of a domestic company, is said to have the "ability to remember" and to have "muscle power," or in some of the more prosaic words, a garment made of this fiber should stay fresh looking for a longer period of time and through inclement or humid weather. It is also said to have high resistance to pilling as well as controlling pilling of fabrics made of blends of this with other fibers.

A French manmade fiber is now being introduced in the American market. It is a polyvinyl chloride (PVC) and according to reports has enjoyed considerable success in the European market in the past 10 years. Among the versatility and many properties attributed to it, the one of interest to me was that one form of the fiber is capable of shrinking up to 55 percent, so that by the application of heat to a woven fabric, greater density is obtained and also interesting effects can be obtained through blends with nonshrinking fibers. 2/ One of the newest developments in the knitted fabric field is a washable blend of one form of this fiber with American synthetics and the knitted fabric is reported to be difficult to distinguish from a fine wool jersey. This fiber is likely to be found in blankets, work clothing, and cold weather clothing as well as in other articles in the near future.

Another import--this one from Italy--is a polypropylene fiber. Like many other manmade fibers, it is reported to have properties making for easy care, high tensile strength, good insulation and other characteristics.

1/ American Fabrics No. 48, Winter 1960.

2/ The Marketing Presentation section of American Fabrics contains an account of the French fiber in the Spring 1960 issue and of the Italian fiber in the Fall-Winter 1960 issue.

I mentioned this fiber because it is claimed to be the lightest fiber in existence and makes exceptionally light weight fabrics. It is also said to have the advantage of low cost (whether now or in the future was not specified) since it is obtained from propylene gas, a by-product of the oil refining process, and one of the lowest priced raw materials that can be transformed into textile fibers. 1/ Lower cost is also expected to be attained because its lightness gives a greater fabric yield per pound, e.g., a fabric of this fiber will use 30 percent less fiber than comparable fabric of wool. Polypropylene fibers have also been developed by domestic companies but the price announced for the Italian fiber was about half that announced by domestic manufacturers. Several American weavers are now experimenting with the Italian fiber in the light weight fabric field.

In these few comments on new fibers, you have no doubt noticed the footnote references to the American Fabrics magazine. I want to call to your attention the directory of Man-Made Fiber Brand Names that accompanies the most recent issue (No. 51, Fall-Winter 1960). This listing may be helpful to you since it includes all U.S. brands by types as well as the major brands made by foreign producers. It also contains the brand names of the textured yarns, such as the well known Ban-Lon, Helanca, and Tycora.

Table 1 - Consumer Price Indexes for Apparel and Textile Housefurnishings
(1947-49=100 unless noted)

Group and Subgroups	Indexes			Percent change		
	Sept.	Sept.	Sept.	Sept.	Sept.	Sept.
	1953	1959	1960	1960	1959	1960
	:	:	:	:	:	
All Items	115.2	125.2	126.8	+10.1	+ 8.7	+ 1.3
<u>Apparel</u>	<u>105.3</u>	<u>109.0</u>	<u>110.6</u>	<u>+ 5.0</u>	<u>+ 3.5</u>	<u>+ 1.5</u>
Men's and Boys'	107.5	109.2	112.2	+ 4.4	+ 1.6	+ 2.7
Women's and Girls'	100.5	100.5	101.1	+ .6	0	+ .6
Footwear	115.3	137.9	140.2	+21.6	+19.6	+ 1.7
Other	92.5	92.9	93.8	+ 1.4	+ .4	+ 1.0
Wool apparel	116.0	118.3	120.9	+ 4.2	+ 2.0	+ 2.2
Cotton apparel	99.8	103.8	106.3	+ 6.5	+ 4.0	+ 2.4
Man-made fiber apparel	86.7	81.2	81.5	- 6.0	- 6.3	+ .4
<u>Textile Housefurnishings</u>	<u>1/ 97.7</u>	<u>94.4</u>	<u>95.6</u>	<u>- 2.1</u>	<u>- 3.4</u>	<u>+ 1.3</u>

1/ December 1952=100.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics

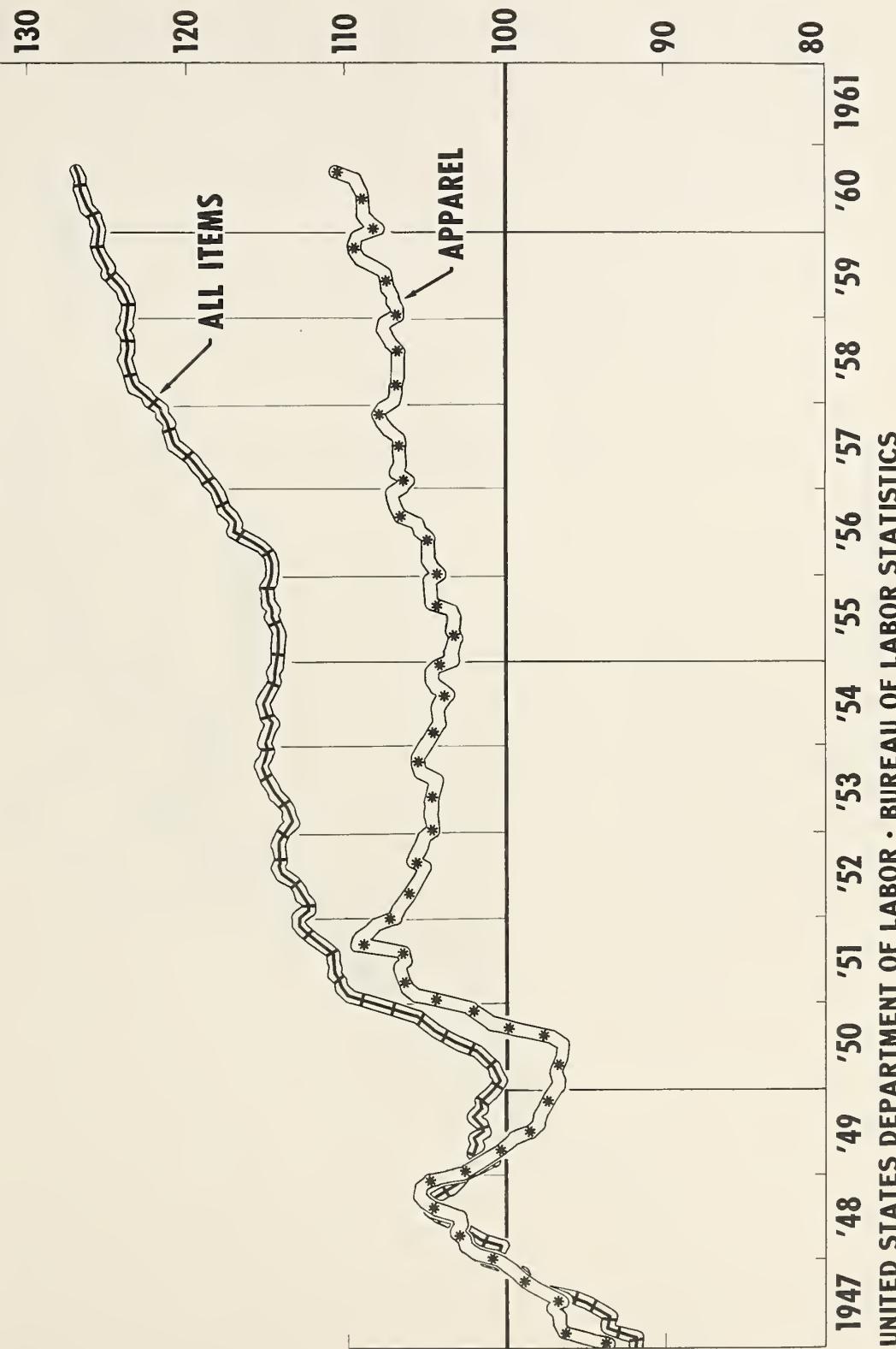
Table 2 - Civilian Per Capita Consumption of Specified Fibers, 1920-1959

Year	Total	Pounds Per Person			Percent of Total			Other man- made fibers
		Cotton	Wool	Acetate	Rayon and Fibers	Other man- made	Rayon and Cotton	
1920	25.1	22.1	2.9	0.1	-	88.0	11.6	0.4
1925	26.3	22.6	3.1	0.6	-	85.9	11.8	2.3
1930	21.1	17.9	2.2	1.0	-	84.8	10.4	4.8
1935	24.5	19.2	3.2	2.1	-	78.4	13.1	8.6
1940	32.8	26.2	3.0	3.6	-	79.9	9.1	11.0
1945	29.6	22.2	2.7	4.7	-	75.0	9.1	15.9
1946	39.2	28.5	4.7	5.7	0.3	72.7	12.0	14.5
1947	35.1	24.5	4.5	5.8	0.3	69.8	12.3	16.5
1948	37.0	24.9	4.7	7.0	0.4	67.3	12.7	18.9
1949	30.3	21.0	3.5	5.7	0.6	68.2	11.4	18.5
1950	40.4	26.8	4.4	8.3	0.9	66.3	10.9	20.6
1951	36.3	25.3	2.6	7.4	1.0	69.7	7.2	20.4
1952	34.8	23.3	3.1	7.1	1.3	67.0	8.9	20.4
1953	36.1	24.2	3.4	6.9	1.6	67.1	9.4	3.7
1954	32.6	21.8	2.6	6.4	1.8	66.9	8.0	4.4
1955	36.4	23.2	2.9	8.0	2.3	63.7	8.0	5.5
1956	34.8	22.6	3.0	6.5	2.7	64.9	8.6	2.8
1957	32.3	20.3	2.6	6.3	3.1	62.9	8.0	9.6
1958	31.2	19.6	2.4	6.0	3.2	62.8	7.7	10.3
1959	35.6	21.8	3.1	6.8	3.9	61.2	8.7	11.0

CONSUMER PRICE INDEX All Items and Apparel

1947-49=100 INDEX

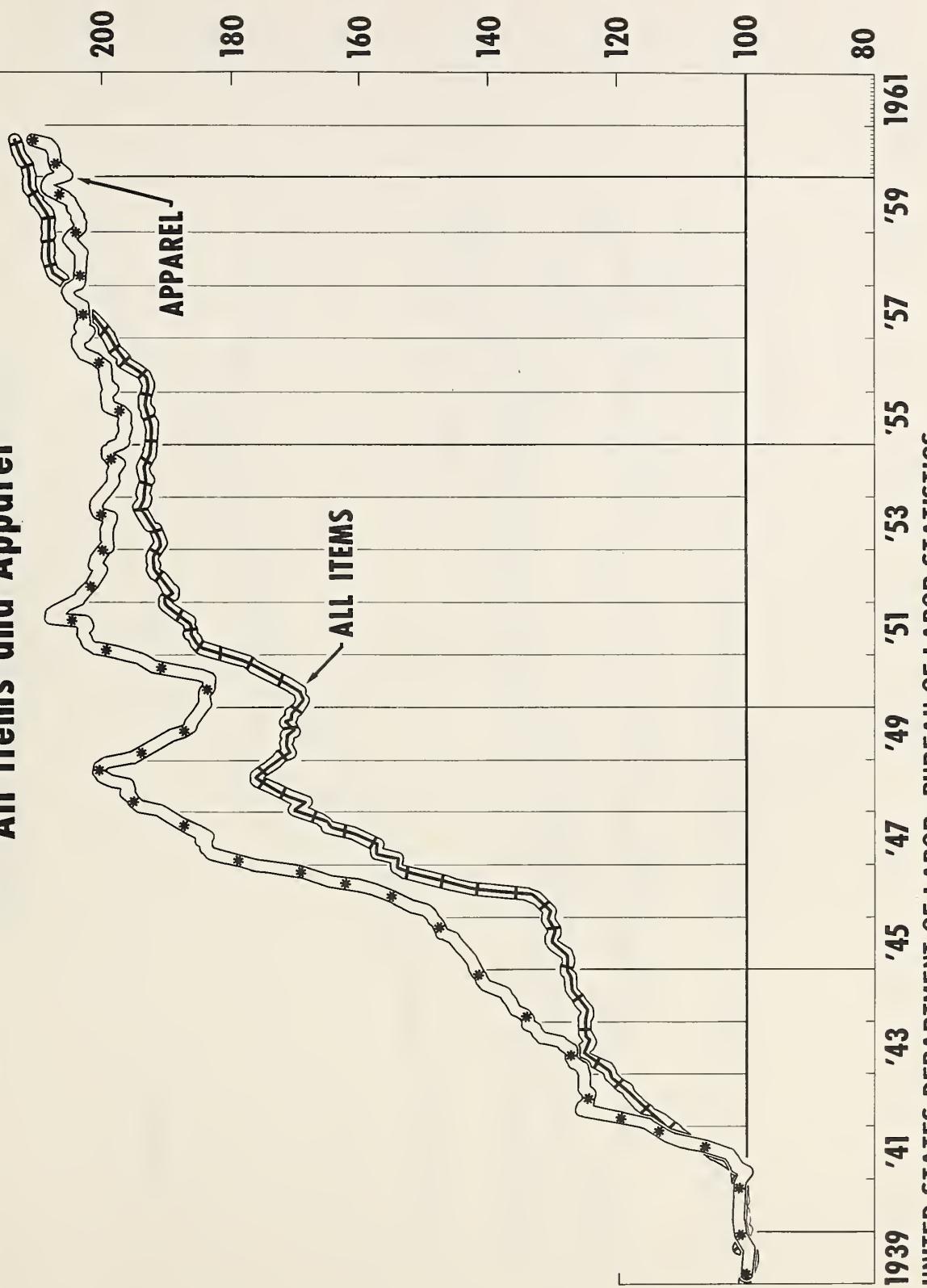
Chart I.



UNITED STATES DEPARTMENT OF LABOR • BUREAU OF LABOR STATISTICS

CONSUMER PRICE INDEX All Items and Apparel

1939=100
INDEX



UNITED STATES DEPARTMENT OF LABOR · BUREAU OF LABOR STATISTICS

CONSUMER PRICE INDEX Apparel and Apparel Subgroups

1947-49 =100
INDEX

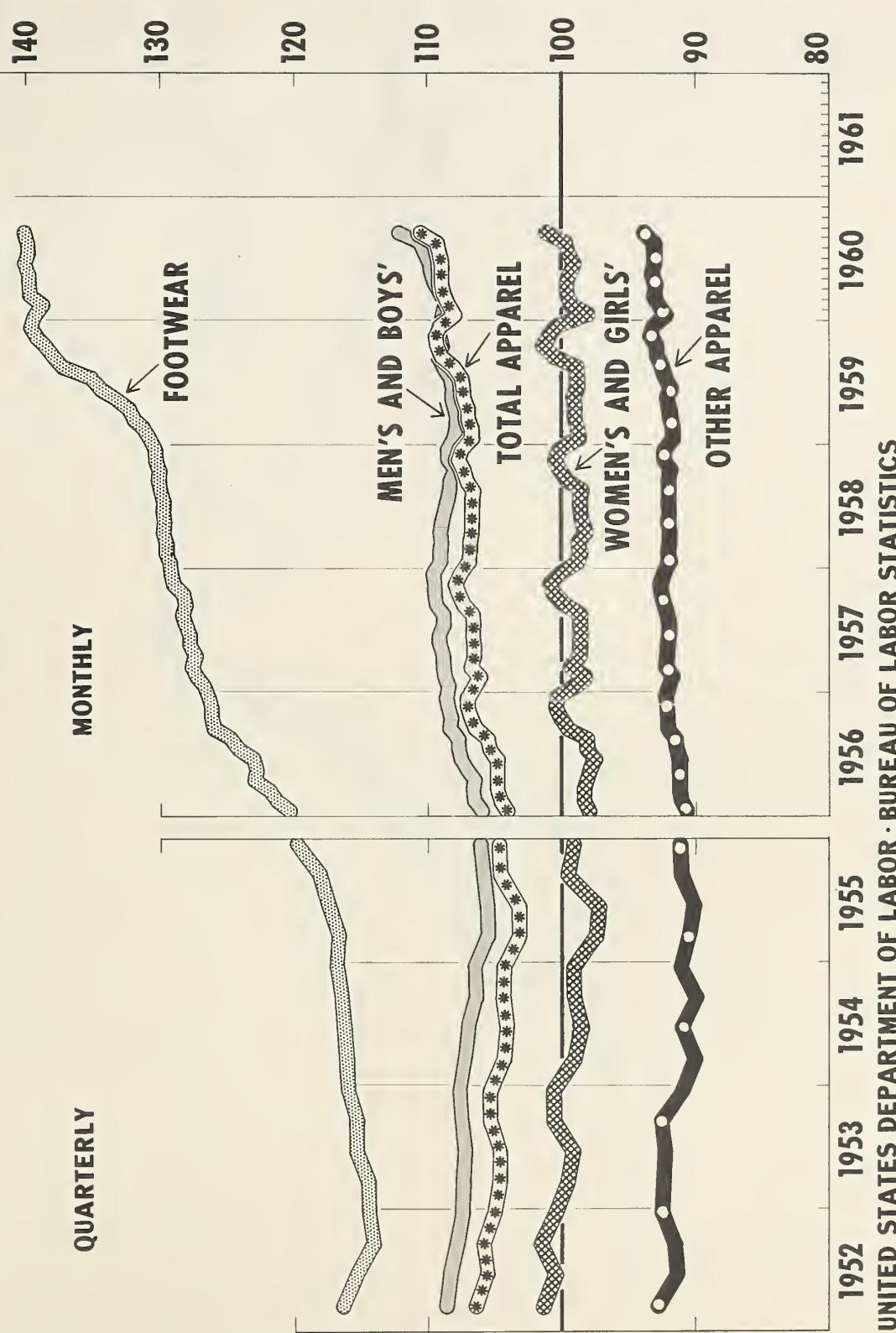


Chart IV.

**CONSUMER PRICE INDEX
Cotton Apparel, Wool Apparel, and Manmade Fibers Apparel
1935-59**

1947-49=100 INDEX

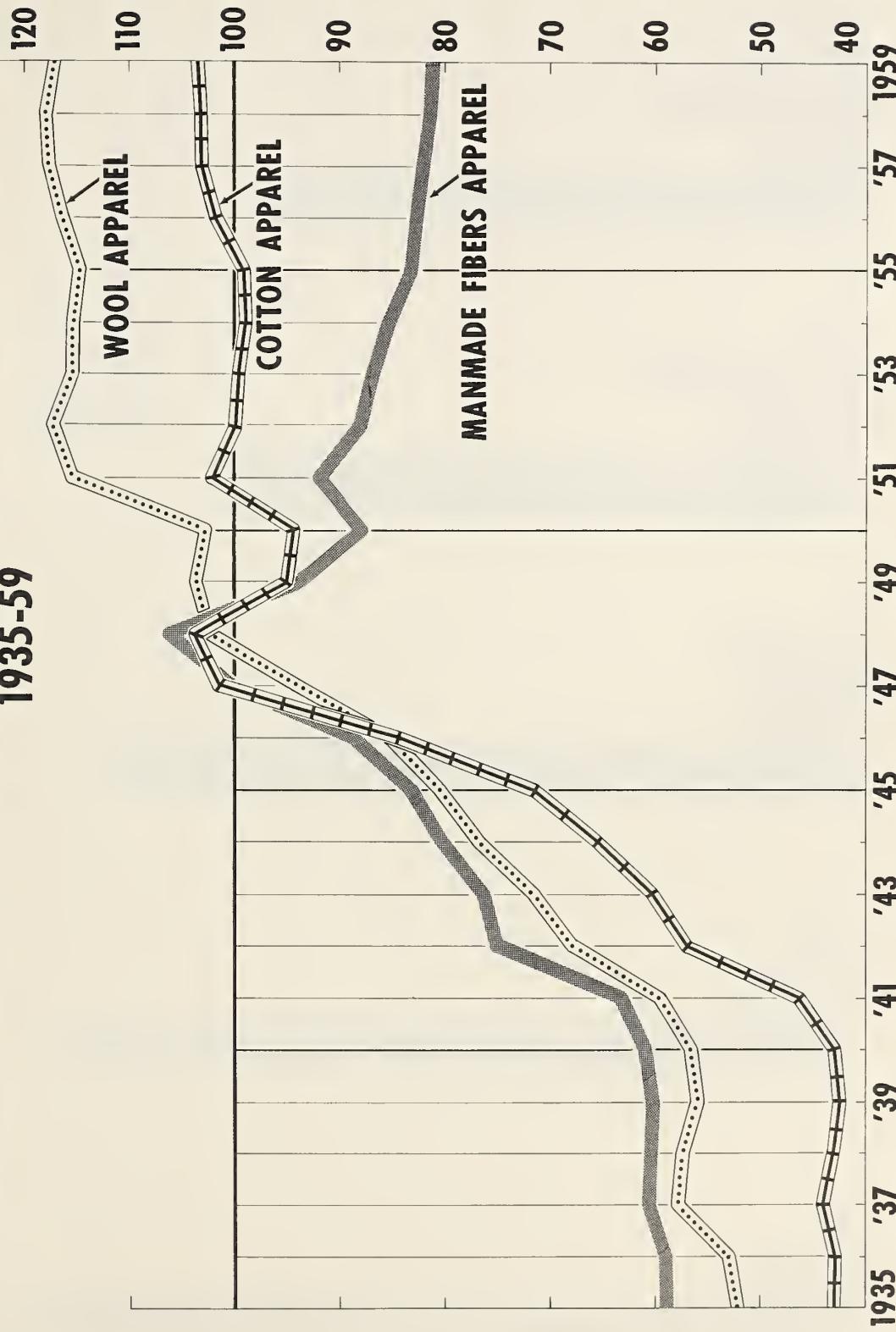
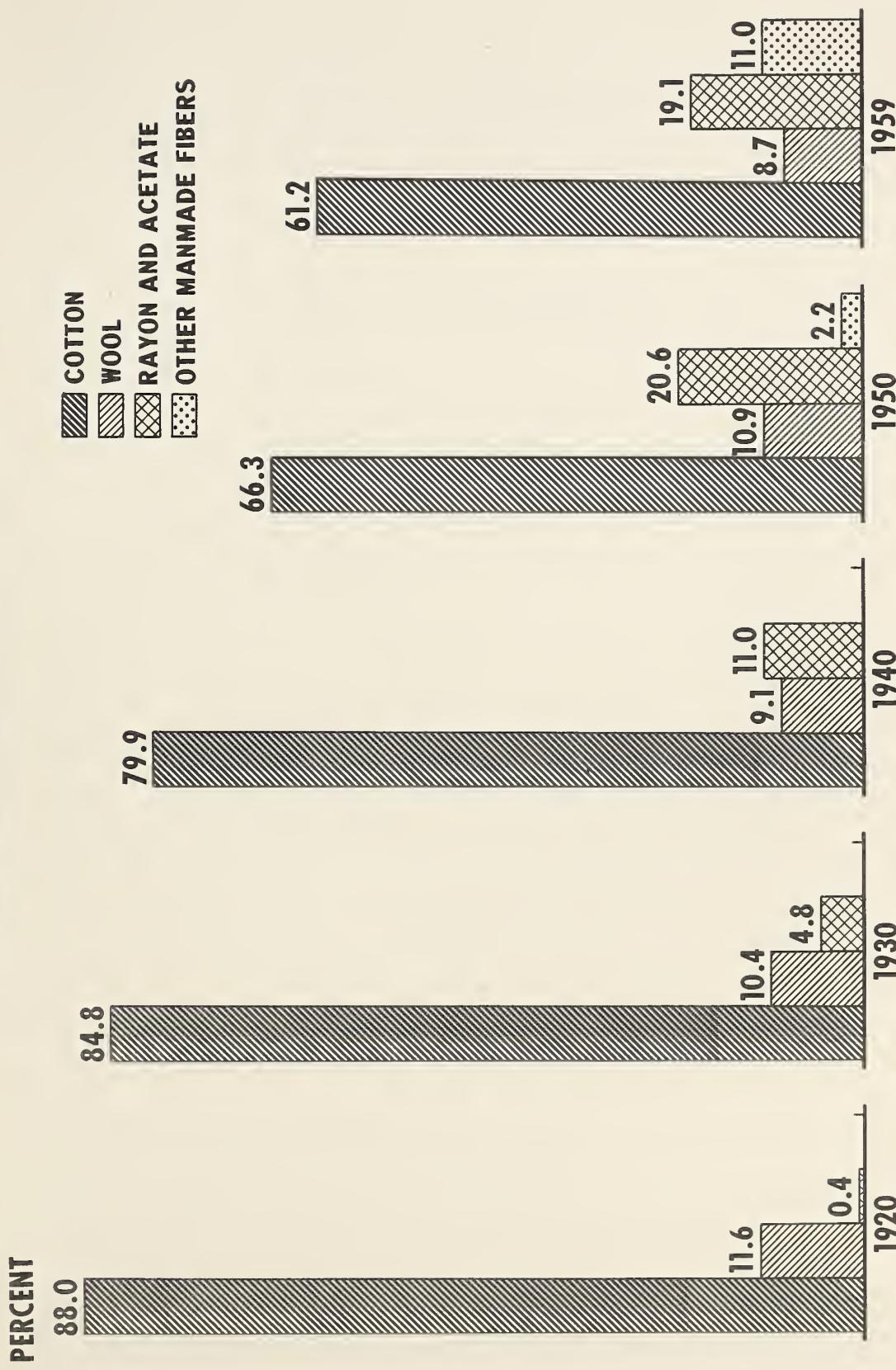


Chart V.

CIVILIAN PER CAPITA CONSUMPTION

Four Specified Fibers, 1920-59



UNITED STATES DEPARTMENT OF LABOR • BUREAU OF LABOR STATISTICS

Source: Textile Organon,
March 1960

OUTLOOK FOR THE COSTS OF ATTENDING COLLEGE

by

J. Harold Goldthorpe, Office of Education
U. S. Department of Health, Education, and Welfare
before the
Agricultural Outlook Conference
Washington 25, D. C., November 16, 1960

The problem of financing the college education of one or more children is one which a larger number and proportion of families will face in the decade of the 60's. The demands of the national welfare, indeed our survival, call for the effective extension of educational opportunities to all young adults who desire them and are qualified to profit thereby.

Congress recognized this situation and its responsibilities two years ago in its adoption of the National Defense Education Act. In the preamble of this law, is the following significant statement:

"The Congress hereby finds and declares that the security of the Nation requires the fullest development of the mental resources and technical skills of its young men and women. The present emergency demands that additional and more adequate educational opportunities be made available. The defense of this Nation depends upon the mastery of modern techniques developed from complex scientific principles. It depends as well upon the discovery and development of new principles, new techniques, and new knowledge.

We must increase our efforts to identify and educate more of the talent of our Nation. This requires programs that will give assurance that no student of ability will be denied an opportunity for higher education because of financial need; will correct as rapidly as possible the existing imbalances in our educational programs which have led to an insufficient proportion of our population educated in science, mathematics, and modern foreign languages and trained in technology.

To meet the present educational emergency requires additional effort at all levels of government. It is therefore the purpose of this Act to provide substantial assistance in various forms to individuals, and to States and their subdivisions, in order to insure trained manpower of sufficient quality and quantity to meet the national defense needs of the United States."

Although it is well known among the leaders of higher education that they face serious problems during the coming decade in raising vast sums to increase faculty salaries, educational services and plant facilities, a somewhat different financial problem concerns us today: What does college cost students and their families and how do they raise the necessary funds?

Trends in Tuition Fees Since 1940

Recent articles and reports reflect the general public's awareness of the rapid increase in college tuition charges with such titles as "Upmanship," "The Case of the Costly Tassel," and "Deflation Never Went to College." I may add that these reminders are scarcely necessary for us parents who have had or now have children in college.

In this section are presented the data relative to institutional annual tuition charges, separately for publicly and privately controlled higher institutions, in relation to the consumer price index and median family incomes over the last 20 years. Detailed figures concerning these trends since 1940 are presented in Table 1. The family income data are taken from the figures of the U. S. Department of Commerce for families with heads between 35 and 54 years of age, the period during which most parents are confronted with their children's college costs. Figures on the mean charges for institutional tuition and required fees are for the same 196 representative institutions for which continuous data were readily available. Each college and university of this group enrolled more than 1,000 full-time undergraduate students and accounted for 55 percent of the total undergraduate enrollment and for a larger proportion of graduate students. The data in Tables 1 and 2, therefore, apply to a majority of the Nation's college students. For comparative purposes, the prewar year 1939 (1939-40) was used as the base year and percentages were calculated.

Table 1. Comparison of Median Income of Families with Heads Aged 35-54 Years, the Consumer Price Index and Mean Institutional Tuition Charge, 1939-1959

Year	Median Family Income			Mean Institutional Tuition and Required Fees ^b			
	Heads - 35-54		Consumer	Public Institutions		Private Institutions	
	Years of Age ^a	Amount	Price Index ^a	Amount	Percent Relative to 1939	Amount	Percent Relative to 1939
1959	-	-	210	\$194	249%	\$890	287%
1958	\$5,722	391%	208	179	229	820	265
1957	5,560	380	202	163	215	741	239
1956	5,383	368	196	155	199	690	223
1955	4,987	341	193	147	189	638	206
1954	4,719	323	193	135	173	590	190
1949	3,393	232	171	112	144	465	150
1945	3,059	209	130	-	-	-	-
1939	1,462	100	100	78	100	310	100

^a Summarized from the reports of the U. S. Department of Commerce and the U. S. Department of Labor and published in the article by Lanora G. Lewis, "Median Family Income, the Cost of Living and Tuition and Fee Charges," College and University Business, Vol. 27: 19-21 (December 1959).

^b For the academic session beginning in September of the years indicated. Mean tuition charges for 196 representative institutions from 1939 through 1954 are taken from "Trends in Tuition Charges and Fees," Annals of the American Academy of Political and Social Science, Vol. 301: 148-164 (September 1955), by Herbert S. Conrad and Ernest V. Hollis. Data for 1955 through 1959 are calculated for the same institutions.

Between 1939 and 1958 median family incomes of heads 35-54 years of age increased 291 percent (or were 391 percent of the 1939 figure) from \$1,462 to \$5,722 and during the same period the cost of living (Consumer price) index rose from 100 to 208. The increase in institutional tuition and fee charges, however, followed a different pattern. In the case of the publicly-controlled institutions, many of which are the Land-grant colleges and universities represented by the membership of this conference, the mean institutional tuition

charge increased approximately \$100 or 129 percent. For the private colleges and universities the comparable figures are from \$310 to \$820, an increase of 165 percent. Judging from the figures for 1960-61 and recent announcements, the process of "upmanship" continues. During this twenty year period while average tuition charges have slightly more than doubled, the consumer price index increased 103 percent and the median family income was more than tripled.

Table 2. Comparison of the Mean Annual Tuition and Required Fees of 196 Representative Colleges and Universities; 1949-50 and 1959-60

Type of Institutions	Number of Institutions	Mean Tuition and Required Fees		Increase	
		1949-50 ^a	1959-60 ^b	Amount	Percent
All Institutions	196	\$249	\$464	\$215	86
Publicly controlled	120	112	194	82	73
Privately controlled	76	465	890	425	91
Publicly controlled					
Universities	69	138	240	102	74
Liberal arts colleges	19	80	129	49	61
Teachers colleges	17	89	171	82	92
Technological institutes	5	142	221	79	56
Junior colleges	10	18	30	12	67
Privately controlled					
Universities	57	457	885	428	94
Liberal arts colleges	14	439	810	371	85
Technological institutes	5	626	1,148	522	83

^a Conrad, Herbert S. and Hollis, E. V. "Trends in Tuition Charges and Fees," Annals of the Academy of Political and Social Sciences; Vol. 301: 143-64 (September 1955).

^b Preliminary Report, Division of Higher Education, Office of Education, Department of Health, Education, and Welfare, May 1960.

An objective view of these data over the past 20 years suggests the following important conclusions: (1) the rate of increase in mean institutional tuition charges has not kept pace with the increase in family incomes; (2) in terms of the 1939-40 prewar base figures, the rate of increase in tuition fees lagged well behind the consumer price index until about 1954 and then rose sharply ahead of it; (3) the percentage relationship of mean tuition charges as a rationof the median family income declined materially between 1939 and 1956.

In spite of this increase in median family income, the heavy impact of taxes in recent years has materially affected the net discretionary income of families. The burden of taxes for all governmental services--federal, State and local--is likely to increase during the coming decade. Moreover, the larger postwar families and the increased demands for higher education will add to the family burden of financing the education of more young people per family and the longer programs of education many will pursue.

The data in Table 2 are presented for those interested in the comparison of tuition fees during the past decade and for the various institutional sub-groups. During this 10-year period the "over-all" tuition increase was \$215 or 86 percent. In the public group of colleges and universities the mean tuition fee increased 73 percent, from \$112 to \$194. For the privately controlled colleges and universities the mean tuition fee increased 91 percent from \$465 to \$890. Among the public universities the mean tuition charge increased approximately \$102 or 74 percent over the 1949-50 figure. Similarly the increases in other types of public institutions were as follows: liberal

arts colleges, 61 percent; teachers colleges, 92 percent; and separately organized engineering schools, 56 percent. In contrast to the rather modest dollar-increases of \$49 to \$102 for the public 4-year institutions, the tuition increases in the privately controlled institutions ranged from \$371 for the liberal arts colleges to \$522 for the technological group.

Student Costs; 1952-53 and 1960-61

Recent and comprehensive studies of the cost of college attendance are not readily available. To meet the need for accurate information in this area the Office of Education undertook such a study several years ago. It was directed by E. V. Hollis, Director of the College Administration Branch of our Division of Higher Education and published in 1957 under the title Costs of Attending College. The basic data are based upon the questionnaire returns of 15,300 single, undergraduate students enrolled during the academic year 1952-53 at 110 representative colleges and universities in 41 States and the District of Columbia.

A summary of the student expenditures under the principal headings for 1952-53, together with the estimates for the current academic year 1960-61 are presented in Table 3. Institutional average current expenditures (omitting capital expenditures, such as those for automobiles, cameras, typewriters and TV sets) ranged from \$635 to \$3,100, the middle 50 percent of students spent between \$815 and \$1,700 and the median student expenditure was \$1,219, (mean, \$1,300). It will be observed that the mean expenditure of students enrolled in privately controlled colleges and universities was approximately \$550 higher than that of students in the public higher institutions. Men students spent on the average \$1,462 in contrast to the mean expenditure of \$1,273 for women students, although the extra money came from their earnings and from loans.

Table 3. Major Items of Students' Mean Current Expenditures; 1952-53 Actual and 1960-61 Estimated Expenditures^a

Major Item	Publicly controlled Institutions		Privately controlled Institutions	
	1952-53	1960-61	1952-53	1960-61
Mean Total Current Expenditure	\$1,120	\$1,300	\$1,674	\$2,100
Tuition and required fees	151	225	546	863
Room rent	102	116	146	165
Board (regular meals)	270	318	301	354
Clothing (including footwear)	130	135	149	155
All other current expenditures	467	506	532	563

^a Data for 1952-53 are computed from Tables 3 and 4 of Costs of Attending College by Ernest V. Hollis and Associates; Bulletin 1957, No. 9, Office of Education, U. S. Department of Health, Education, and Welfare. Estimates for 1960-61 are based on the U. S. Department of Labor, Bureau of Labor Statistics, consumer price indexes and the increase in mean institutional fees since 1953.

It will be readily seen that institutional tuition charge, (\$151 in the public and \$546 in privately controlled institutions) was but a relatively small portion of the median student expenditure. The major expenditures which make it difficult for low-income families to send a son or daughter away to college are the board and room costs away from home rather than the educational costs, tuition and fees, books and supplies.

Hollis generalized that several factors appear to determine the cost of attending college: (1) Spending habits formed at home; (2) the choice of the college attended; (3) the pressures of campus customs and mores; (4) the size of the family income and (5) whether or not a student lives at home and commutes to college.

The fact that regional variations also enter the situation were indicated by the following mean expenditures:

Northeastern.....	\$1,676
North Central.....	\$1,262
Western.....	\$1,209
Southern.....	\$1,164

On the average, students who lived in the family home and commuted to college spent approximately \$1,000 per year. In the case of students who lived in other private homes or college dormitories the increased outlay was approximately \$350 and for students who lived in fraternities or sororities there was a further increase of approximately \$300 in their mean expenditure.

In the second and fourth columns of Table 3 are summarized the estimates for the major items of student expenditures for the current academic year 1960-61. These estimates are based upon the increases in the consumer price indexes for the several items since 1952-53 and the increases in the mean institutional tuition fees of the Office of Education data summarized in Table 1. Using 1952-53 as the base year, the ratios of increase in the several items are as follows: tuition and required fees in publicly controlled higher institutions-49 percent; privately controlled institutions-58 percent; food-18 percent; clothing-4 percent, and shelter (rent)-14 percent. It is readily apparent in examining these estimates that the increase in current expenditures is approximately \$200 in the case of students attending publicly controlled institutions, while in the case of those enrolled in the privately controlled colleges and universities the increase is slightly more than double that amount.

Sources of Student Income

How does the student and his family raise the funds to finance his college career? Fortunately there are two factual studies which shed considerable light upon this important subject. The first one of these is the Hollis study for the academic year 1952-53, which is summarized in Table 4. Families and relatives were responsible for two fifths of the student's income for the year and the average family contribution was approximately \$650. Another fifth was in the form of long-term savings which were probably contributed largely by parents and grandparents.

Table 4. Major Sources of Student Income, 1952-53^a

Source of Funds	Percent of Total Income	Mean Amount Received by all Students
Family (parents & other relatives)	40.5%	\$647
Long-term savings	20.0	695
Term-time earnings	17.0	413
Summer earnings	9.3	395
Scholarships	4.8	310
Veterans and vocational rehabilitation benefits	4.3	894
Loans	1.5	400
Other sources	2.6	133
<u>Totals</u>	<u>100.0%</u>	<u>\$1,462</u>

^a Summarized from Table 8, page 48 of Costs of Attending College.

Students themselves financed over a quarter of their income through earnings during the academic year and the summer. The mean amount earned was \$413 in the case of term-time earnings and \$395 for summer employment. There was an important sex difference with respect to term-time earnings. Two thirds of the men students worked during the academic year and earned an average of \$486 per student in contrast to one half of the women students who were so employed and whose mean earnings was \$265. Scholarship assistance primarily in the form of institutional grants accounted for about 5 percent of the students' income, were received by 21 percent of the students and the average grant was \$310. About 4 percent of the students in this study financed their college expenditures by means of loans, gifts and funds from other sources. Although but 1.5 percent of the students borrowed, the mean amount received from this source was \$400. However, twice as many men students borrowed in comparison with the women students who borrowed.

The second report is a nationwide study completed by the Institute of Social Research of the University of Michigan under a grant of the Office of Education Cooperative Research Program (Lansing, John B., Lorimer, Thomas and Moriguchi, C., How People Pay for College). This study is based on data for the year 1959-60, obtained through personal interviews from a representative sample of 2,700 families living in private homes.

The results of this study indicated the mean annual expenditure of single college students was \$1,550 and that for 3 out of 4 families, the students' expenditures varied between \$950 and \$2,450. Based on the mean student expenditure of \$1,550, parental contributions accounted for \$950, approximately 2/3 of the total expenditure, \$350 was from student support, \$130 was in the form of scholarship assistance and \$110 came from other sources. In general, the amount of the parental contribution varied with the size of the family income, the number of children to be educated and the educational level of the parents. Better educated parents and those in the upper income brackets tend to pay more of their children's education costs, frequently to enable their children to attend prestige institutions.

An interesting aspect of this study which is somewhat at variance with some others, is that half of the families who had had children in college during the past five years had set money aside in advance to help pay for their college costs. Moreover, these families, on the average began ten years ago to save such funds. In about one fifth of the families the mother took

an outside job in order to help pay college expenses. Approximately half of the families indicated that it was necessary to reduce other family expenditures or to live on a tight budget so as to help meet their children's college expenditures.

Of the families with children in college during the past five years, 14 percent reported borrowing at one time or another and parents reported borrowing twice as often as the students. Although this study indicates a greater tendency to resort to loans than the earlier Hollis study, the authors commented on the reluctance of the parents to rely on loans. They stated "borrowing to pay for a college education is regarded by most people as something to be done only when the need is acute and no other funds are readily available."

Prospects for the Coming Decade

A pressing problem confronting higher education in the decade of the 60's will be that of obtaining adequate financial support. Will an increasing portion of it have to come in the form of higher student tuition fees? This is by no means a novel question, but it is becoming more urgent. As an indication of the extreme attitude in certain quarters, the president of a liberal arts college declared some time ago that "unreasonably low-tuition charges are socially, educationally and morally wrong."

The principal argument for higher fees is that higher education is essentially a matter of personal advantage and hence should be financed to a larger degree by individual payment. The average income of college graduates is usually higher than the average of non-graduates and accordingly, the college trained have greater "ability to pay." Mr. Devereux C. Josephs, Chairman of the New York Life Insurance Company and Chairman of the President's Committee on Education Beyond the High School has stated, "Colleges should raise tuition fees to charge the student the full cost of his education, and what the student or parents cannot pay from past savings and current earnings they should borrow," ("College on Credit," Think 25:7-9, May 1959).

There is, however, another fundamentally different philosophy with respect to this matter. This holds, in common with our colleagues in the public schools, that higher education is a social investment by which public expenditures are utilized for the extension of educational opportunities. This point of view holds that opportunities for higher education should be made available to all youth of ability, irrespective of family economic status and expressed in the Land Grant Ordinance of 1787, in the constitutions of the new States and in the adoption of the Morrill Act of 1862, all of which sought to expand educational opportunities for youth.

It should be observed that our concern with the "social investment" character of higher education has not prevented the public institutions in recent years from increasing their tuition charges. However, it is still quite unlikely that after a century and a half's experience with tax-supported higher education, States will abandon it in any substantial degree. Surely no one who takes a serious look at the problems facing higher education in the coming decade and the Nation's needs for college trained manpower can admit the failure of the "low tuition principle."

It appears likely that student tuition charges will probably continue to increase, although probably in different ratios for the public and private higher institutions just as they have in the past twenty years. "Educational installment buying; learn now, pay later" as referred to by President Eldon Johnson of the University of New Hampshire ("Is the Low-Tuition Principle Outmoded," College Board Review, Spring 1959) may create a new form of "indentured service, in which the poor pay for 20 years while the better-off start life debt-free."

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

OUTLOOK FOR COTTON IN 1961

Talk by Frank Lowenstein
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 3:45 P.M., Wednesday, November 16, 1960

Disappearance of cotton in the United States during the 1960-61 marketing year probably will be larger than production of 14.2 million running bales. Consequently, the carryover of cotton on August 1, 1961 may be smaller than it was a year earlier, down to about 7.0 million bales, compared with the 1960 carryover of 7.6 million bales. The 1961 carryover probably will be the smallest since 1953 and less than 50 percent of the record high of 14.5 million bales in 1956. (See figure 1.)

Both exports and mill consumption of cotton in 1960-61 probably will decline and disappearance may total about 15 million bales. This is about 1.2 million bales smaller than disappearance in 1959-60, but is still the third largest disappearance since 1928-29. Expected disappearance in 1960-61 is exceeded only by that of 1956-57 and 1959-60. (See figure 2.)

Mill consumption in 1960-61 is expected to be no larger than 8.5 million bales, compared with approximately 9 million bales in the preceding season. The decline in mill consumption of cotton is indicated by lower rates of cotton consumption by domestic mills in August and September 1960 than a year earlier, steady increases in the ratio of stocks to unfilled orders for broadwoven goods over the past several months, a rather steady decline in the value of fabric, and sharp increases in imports of cotton textiles and cotton picker laps.

The adjusted average daily rate of cotton consumption declined in August from July and declined still further in September. The seasonally adjusted September rate was at about an $8\frac{1}{4}$ million bale level and the August rate was at about an 8.7 million bale annual rate.

The seasonally adjusted ratio of stocks to unfilled orders for cotton broadwoven goods at the end of September was 0.44. This was the highest ratio since the end of November 1958 and marks the seventh consecutive rise in the ratio. (See figure 3.) The low was in January and February when the ratio stood at 0.19. Usually, mill consumption of cotton declines several months after this ratio increases and vice versa.

The average value of the amount of fabric made from a pound of cotton (20 constructions) at the end of September was 63.70 cents, down

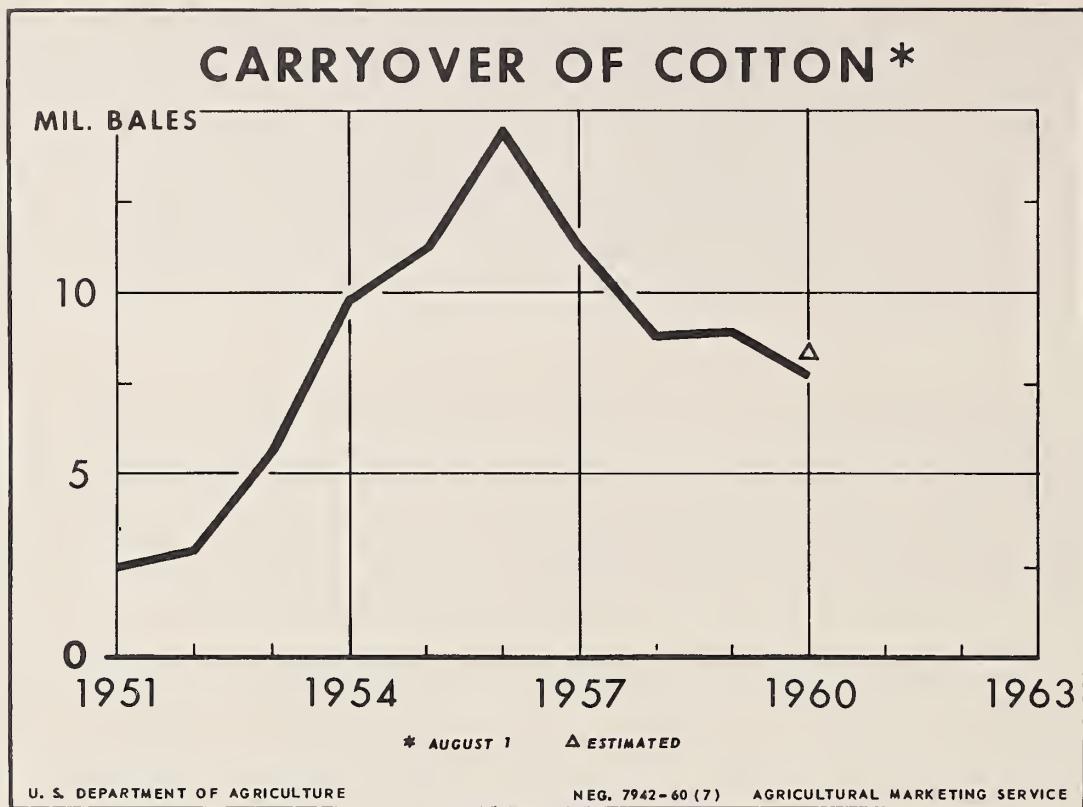


Figure 1

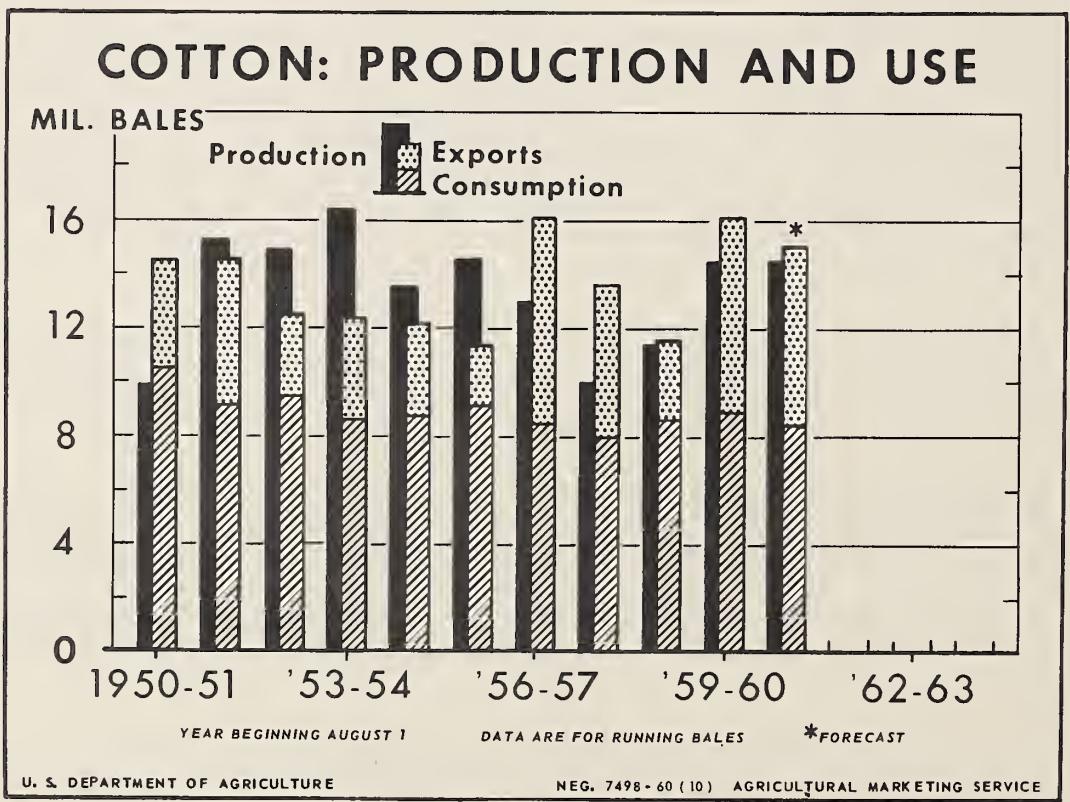
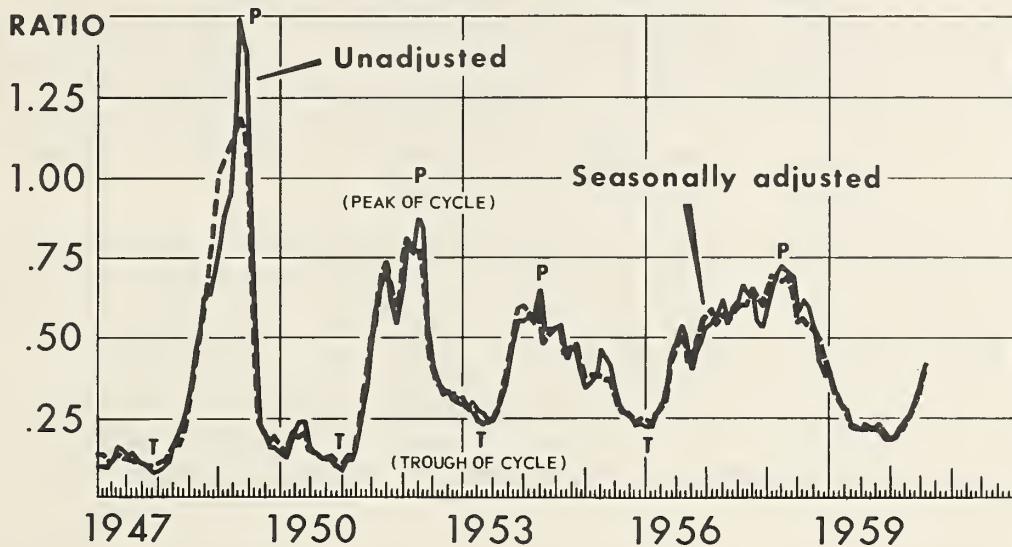


Figure 2

Cotton Broadwoven Goods

**STOCKS-UNFILLED ORDER RATIO,
SEASONALLY ADJUSTED**



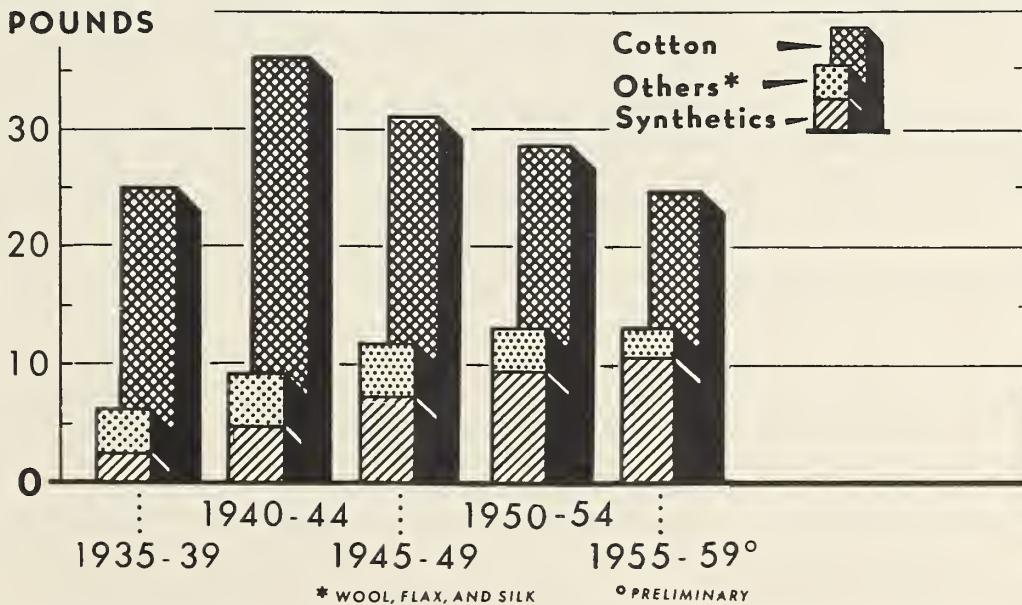
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NEG. 7646-60 (10) AGRICULTURAL MARKETING SERVICE

Figure 3

Natural and Synthetic Fibers

FIBER CONSUMPTION PER PERSON



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NEG. 498-60 (3) AGRICULTURAL MARKETING SERVICE

Figure 4

3.4 cents from the high of February and about 1 percent below that of a year earlier. Low fabric values also are associated with declining mill activity. Mill margins also have tended to narrow, although not quite as steadily as fabric values.

Mill consumption of cotton in the United States is sensitive to changes in U. S. foreign trade of cotton textiles. When the U. S. exports cotton textiles, mill consumption of cotton increases because of foreign demand for U. S. textiles. When the U. S. imports cotton textiles, imported textiles compete with domestically produced textiles and these cause mill consumption to decline.

Although exports of cotton textiles have remained substantial in recent years, imports of cotton textiles have increased sharply. In the first 7 months of 1960 such imports were at the record high annual rate equivalent to about 566,000 bales of cotton. This rate compares to the previous high record of approximately 360,000 bales in 1959. It is larger than the annual rate of cotton textile exports for the first time since records began in 1920. During January-July 1960 the annual rate of cotton textile exports was equivalent to about 522,000 bales of cotton.

Imports of yarn, thread, and cloth during January-July were about 3 times such imports a year earlier. Imports of primarily manufactured products were up about 21 percent.

In the United States the price of cotton normally is more than 50 percent of the prices of cotton cloth, yarn, and thread. However, cotton prices account for about 30 percent or less of the manufacturers' prices for apparel and household items. World prices for cotton which are lower than domestic prices affect the prices for yarn, thread, and cloth more than prices for more highly manufactured cotton products.

In addition to the imports of textiles, the import of picker laps (cotton which has been opened and processed into picker lap rolls) increased sharply in January-July 1960. For these 7 months imports under the category including picker laps were at an annual rate equivalent to about 45,000 bales of cotton, compared with such imports in 1959 of about 9,800 bales and less than 200 bales per annum in 1955, 1956, and 1957.

The net import balance (imports less exports) of textiles and picker laps during the first 7 months of 1960 was at an annual rate equivalent to about 89,000 bales of cotton. In 1959, there was a net export balance of about 123,000 bales.

Mill consumption of cotton per capita for 1960 is declining about 0.7 of a pound from a year earlier. This continues the trend of recent years for mill consumption of cotton to decline. (See figure 4.)

However, mill consumption adjusted for the cotton equivalent of textile and picker lap imports and exports changes the picture. The per capita domestic consumption of cotton (after such adjustment) is about the same as the per capita domestic consumption of a year earlier, approximately 24.1 pounds per person. (See figure 5.) For many years the per capita consumption of cotton has shown less of a downtrend than per capita mill consumption of cotton in the U. S. However, 1960 marks the first year in which per capita domestic consumption is higher than per capita mill consumption. Mill consumption per capita for 1960 is estimated at about 23.8 pounds compared with 24.5 pounds in 1959.

Exports in the 1960-61 season will still be substantial at about 6.5 million bales, although about 700,000 bales smaller than the very large exports of last season. In 1960-61 production of cotton in the foreign free world is expected to be about 1.5 million bales larger than the 16.5 million bales of 1959-60. Consumption of cotton is expected to stay at a high level, perhaps slightly above the record high of last year and exports from the foreign free world to Communist countries probably will increase because of smaller cotton crops behind the Iron Curtain. Stocks of cotton at the end of the current season in the foreign free world also are expected to increase because of the very small stocks of cotton in India and some of the other producing countries at the start of the season. Despite larger production in the foreign free world, increases in consumption and stocks are expected to maintain United States exports at a relatively high level. When we consider the Communist countries and the free world together, there is still a gap between cotton consumption and cotton production. This gap causes United States exports to be at a substantial level. (See figure 6.)

Also, United States Government financing of cotton exports is larger this year than in the preceding fiscal year. As of November 7 it was estimated that about 1.7 million bales were authorized for export under such programs in the 1960-61 fiscal year. About 1.4 million were exported under these programs in 1959-60. The increase is occurring principally under Title I of Public Law 480. Exports under the Mutual Security Act are expected to be smaller than 1959-60.

Prices for cotton in importing markets were higher in September than in August and a year earlier. Although United States prices increased some, they were still competitive with comparable qualities of foreign grown cotton. For example, U. S. Middling 1-1/32-inch cotton c.i.f. Bremen was about three-fourths of a cent a pound higher in September 1960 than in September 1959. The same quality cotton from Mexico was almost 1- $\frac{1}{2}$ cents per pound higher.

Production of cotton in the United States during the 1960-61 marketing year is estimated at about 14.2 million running bales. This compares with 14.5 million bales produced in 1959 and it is being

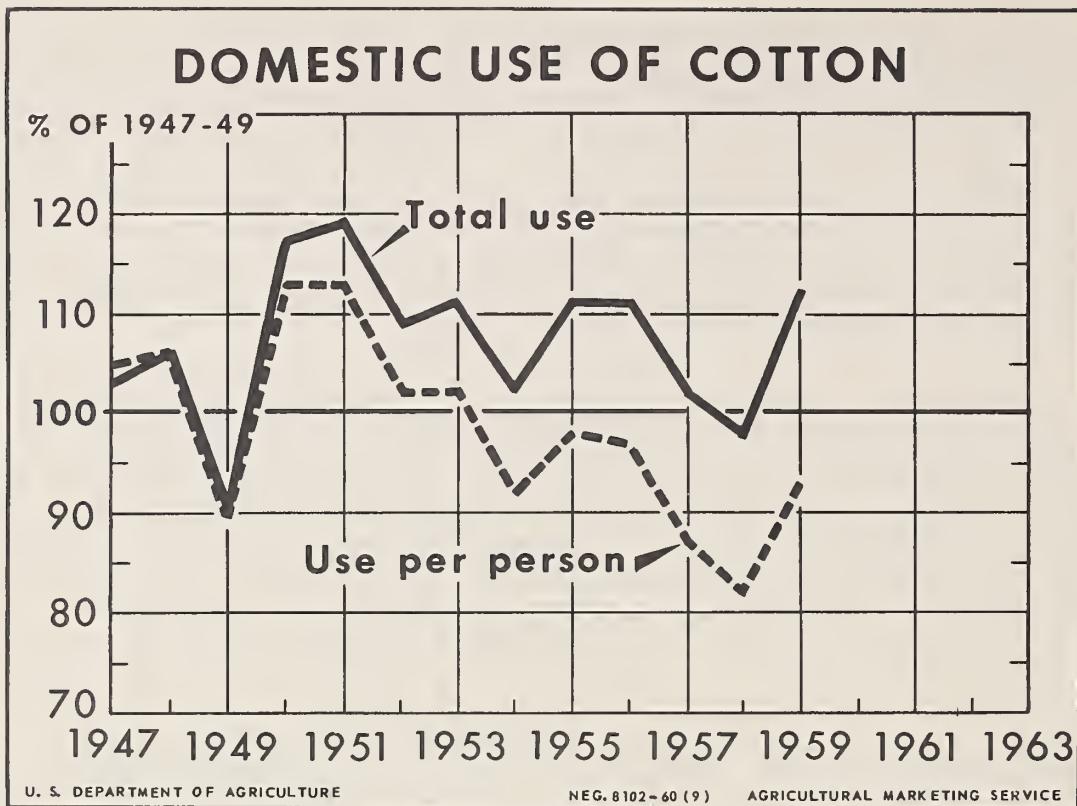


Figure 5

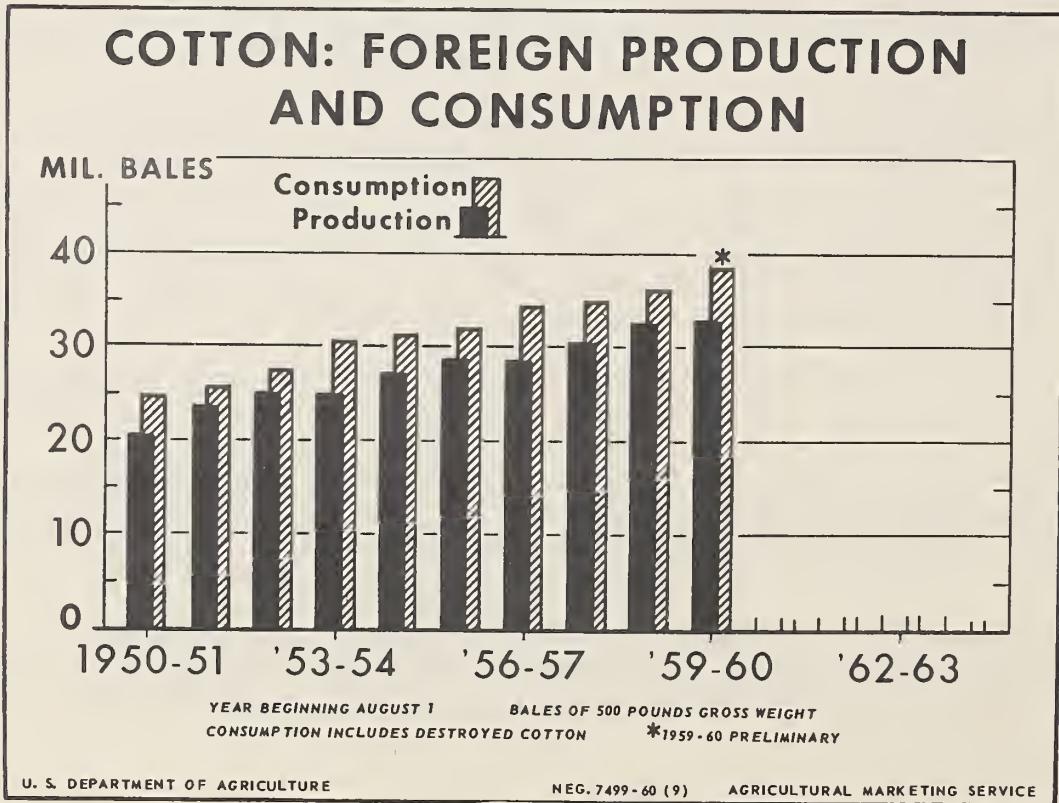


Figure 6

produced on a larger acreage. Harvested acreage is about 400,000 acres larger than in 1959 and is the largest acreage since 1956. The yield per acre for the 1960 crop is estimated about 442 pounds per harvested acre. This compares with 462 pounds in 1959 and a record high of 466 pounds in 1958. The yield for 1960 moved counter to the longer term trend. The yield per harvested acre has been trending upward for some time. (See figure 7.) Projection of this trend would indicate that perhaps the 1958 and 1959 yields were slightly above trend yields and the 1960 yield is slightly below the trend.

For the 1961 crop a marketing quota of 15.6 million bales for upland cotton was announced on October 13. At the same time the national acreage allotment was set at about 18.5 million acres compared with total allotments including Choice B selections of 17.5 million acres in 1959. The proportion of cotton acreage allotments in the West declined from 9 percent in 1960 to about 7.6 percent in 1961. The proportion in the Southeast increased about 0.5 percentage points to about 18.3 percent. The proportion in the Southwest increased about 0.8 percentage points to about 47.2 percent and the 26.9 percent for the Delta was close to that of a year earlier.

The Commodity Credit Corporation held stocks of cotton (owned and held as collateral against price support loans) on October 28 totaled about 5.1 million bales compared with approximately 6 million bales on about the same date a year earlier. On August 1, 1960 CCC held stocks of about 5 million bales were about two-thirds of the carryover. Purchases of Choice A cotton through October 28 totaled about 3 million bales, compared with about 3.5 million bales during the same period a year earlier. The smaller purchases during the current season probably reflect the lower rate of ginning for the 1960 crop. Sales of Choice A cotton through October 28 were approximately 1.4 million bales leaving about 1.6 million bales in stock.

The average 1 $\frac{1}{4}$ spot market price for Middling 1-inch cotton in October of 30.22 cents per pound was the lowest average price at the designated markets since June 1946 and compares with 31.66 cents in the same months a year earlier. The difference in the two October prices of 1.44 cents per pound compares with a lower Choice B price support level of about 1.77 cents per pound for Middling 1-inch cotton.

For the 1960 crop, Choice A cotton was supported at 75 percent of the February parity price and Choice B cotton was supported at 60 percent. Both support levels applied to Middling 7/8-inch cotton at average location.

For the 1961 crop there will be no Choice A or B support level. Legislation specifies one support level between 70 and 90 percent of parity. Also, the quality to which the support level applies is changed from Middling 7/8 inch to the average quality of the crop. After 1961 the lower limit will be 65 percent of parity.

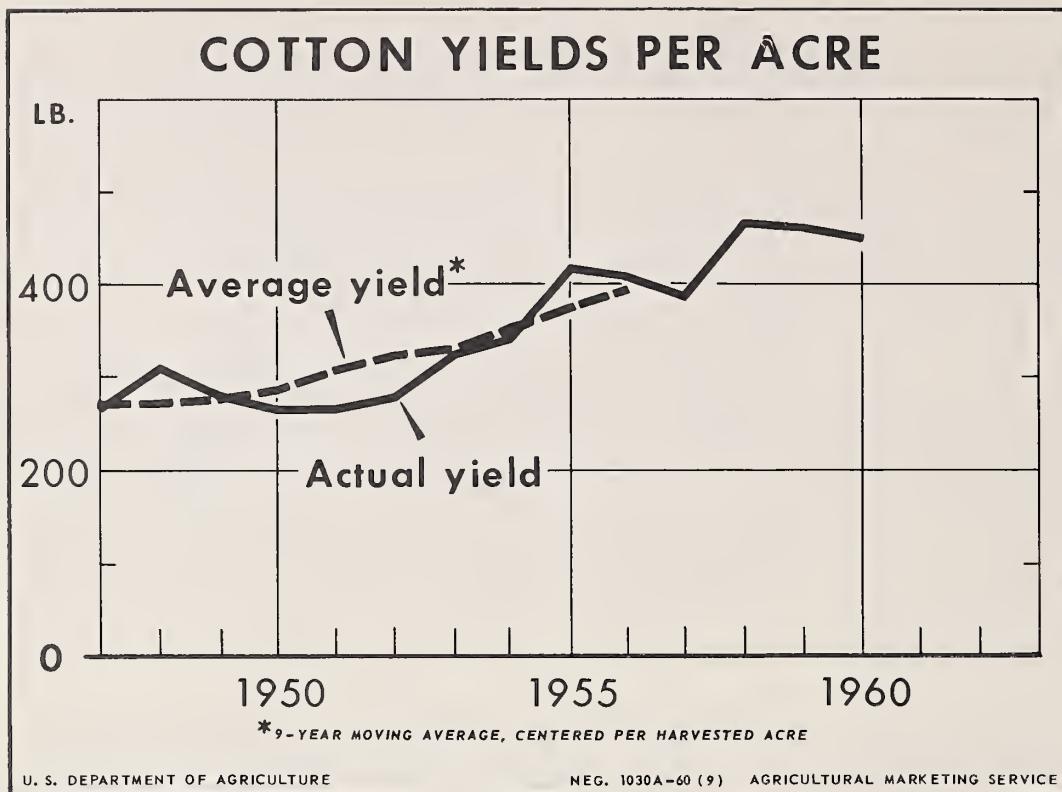


Figure 7

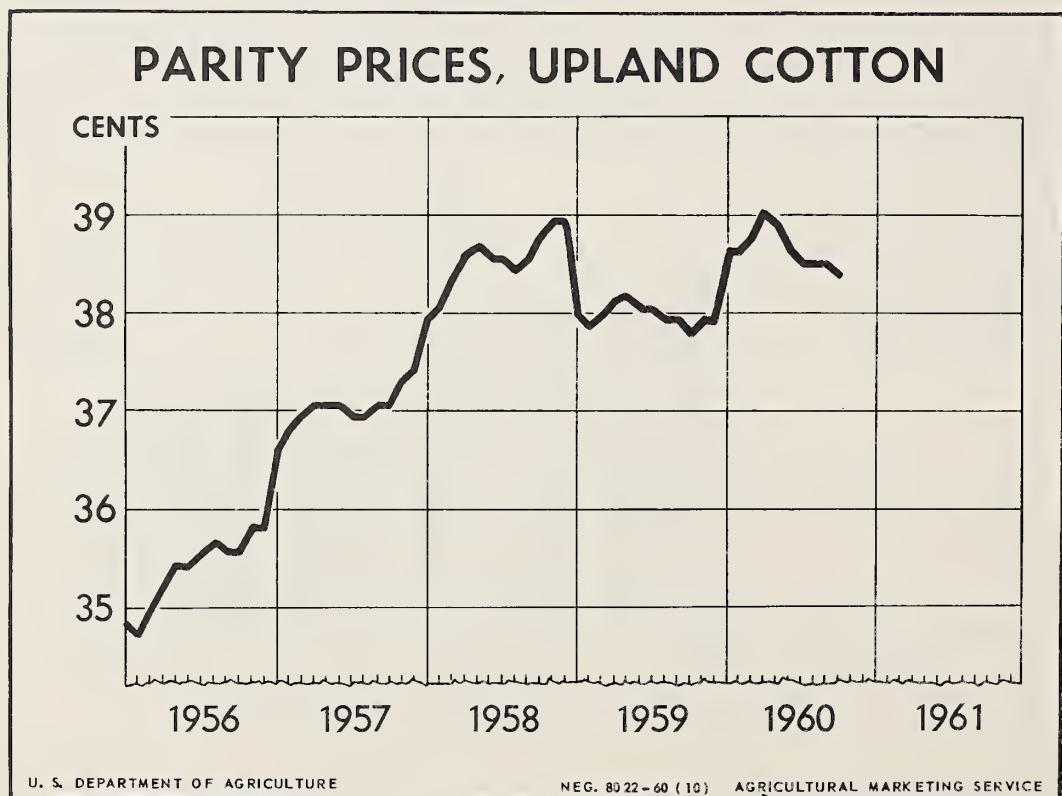


Figure 8

Parity prices for upland cotton declined in recent months. The peak was the parity price for May 1960 of 39.02 cents per pound. Since that month the parity price has declined and was 38.37 cents per pound for November. (See figure 8.) The decline since May has been caused by a decline of 5 points in the parity index. In mid-October the parity index was 297 (1910-14=100).

Longer term projections are made under assumptions of a high level of economic activity, cotton price supports at the minimum permitted under present legislation--65 percent of parity for the average quality of the crop--and certain other specific assumptions. Under such assumptions per capita consumption of total fiber (cotton plus wool and man-made fibers) would be about 40 pounds per person in 1965 and 1970. This compares with an annual average of about 37.1 pounds per person for 1955 through 1959. About 60 percent or 24 pounds of the per capita fiber consumption projected for 1965 and 1970 would be cotton. This projection of per capita consumption of cotton is about the same as in recent years. However, mill consumption of cotton in 1965 and 1970 would increase sharply because of population growth. It would probably be around 9.8 and 10.7 million bales.

Exports of cotton would be expected to continue at relatively high levels under the price assumptions mentioned above. The assumed price support level is about the same as current export prices. Consumption of cotton abroad probably would continue to increase faster than production of cotton. Exports in the years centered around 1965 and 1970 might well total about 6.5 and $7\frac{1}{4}$ million bales, respectively. These compare with average annual exports in the 1956-57 through 1959-60 cotton marketing years of about 5.8 million bales.

Total disappearance in 1965 and 1970 would total about 16.3 and 18 million bales. Recent experience indicates continuation of an upward trend in cotton yields per acre, though perhaps at a somewhat slower rate of increase than from 1947 to 1957. If yields should increase at a rate of about 1.5 percent per year, about 17 and 17.3 million planted acres would be needed to balance production and disappearance in 1965 and 1970, respectively. Allotted acreage would, of course, be larger than planted acreage.

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X OUTLOOK FOR DAIRY PRODUCTS X

Statement by H. C. Kriesel
Agricultural Economic Statistician
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A. M., Wednesday, November 16, 1960

Kriesel

A capsule summary of the dairy outlook is: commercial supplies of milk products will be record high in 1961, although just slightly above levels of recent years. Commercial demand probably will again increase less than the population. Prices to farmers and to consumers for dairy products will average above a year earlier through March 1961. Thereafter, the level of price supports to be announced before next April 1 may be an important determinant of those levels. Cash receipts from farmers' sales of dairy products in 1961 are likely to increase slightly over 1960 to another new record. However, total costs for producing milk have been rising. Cash receipts, at a record high level, do not mean that net incomes to dairymen also are at a record high level.

United States Department of Agriculture
Now, what are some of the specific elements of the 1961 and long-term dairy outlook? One important element is production trend. We have heard much, in this outlook conference so far, about the great surge in agricultural output, during the last decade particularly. Dairying has been a minor element in this expansion. In 1960, milk production is running about 9 percent above the 1947-49 average. Total agricultural output is up 29 percent in the same period, with livestock production up 29 percent, and feed grains up 42 percent. The downward drift in commercial demand for dairy products has been offset pricewise by a major price-support program. In terms of historical relationships, milk prices the last several years have been favorable, relative to the feed costs. Tending to offset this, however, have been three factors: (1) more attractive farming alternatives, particularly production of beef, a product for which consumer demand is growing more than for any other livestock item, and which uses many of the same resources as those used in dairying, (2) probably a growing awareness of the confining nature of dairying, compared with alternative pursuits, particularly among the replacement generation, and (3) in many dairy farming areas, expanding non-farm employment opportunities. Production is becoming more specialized for milk, as for most farm products. In 1959, the total volume of milk sold by farmers was 15 percent larger than 10 years earlier, while the number of farms reporting the sale of milk products was 50 percent fewer.

Looking at changes within the last decade, milk output in the United States jumped 5.5 billion pounds (5 percent) from 1952 to 1953, then gained only 5.7 billion pounds the next 4 years. In 1958 and 1959, it declined a total of 1.5 billion pounds, and in 1960 it will have recovered about three-fourths of that decline, with an output of 125.5 billion pounds. The dominant element causing the recent shifts in levels

appears to have been changes in beef cattle prices, in contrast to relatively stable milk prices. The downward drift in beef cattle prices since the early part of 1959 is likely to continue through all of 1961. In view of this, and prospects for other factors influencing milk production, the increase in output in 1961 probably will exceed the advance of 1.1 billion in 1960.

Milk has many uses, and there is a specific kind of demand in each use. Over the past two decades or so, we have seen some very wide departures in trends in demand for the different products. One that concerns us all very greatly is the drop in demand for butter, from more than 17 pounds prior to World War II to less than 8 pounds in this year, 1960. Demand for milkfat in a number of other forms also has declined, even though some products containing milkfat have increased, such as ice cream. Demand for certain items containing only milk solids-not-fat have increased phenomenally the last decade.

But to combine in summary form these various trends it is most convenient to discuss trends in demand for milkfat and for milk solids-not-fat, without regard to the products containing them. Per capita consumption of milkfat in all its forms, both fluid and manufactured, is about 25 pounds per person in 1960, compared with 32 pounds 20 years ago. This is equivalent to the decline in butter consumption, although there have been some offsetting changes in fat consumption among other products. Let's pause just a moment to consider the impact on the dairy industry of this decline in demand for butter. The drop from 17 pounds pre-war to less than 8 pounds now, multiplied by the present population of 180 million people, means that the consumption of milk, in terms of milk equivalent, is about 30 billion pounds smaller now than it would have been if the prewar butter consumption level still prevailed. In other words, if we still consumed now the same amount of butter per capita as in pre-war, along with the current amounts of other products, it would have been necessary for farmers in 1960 to have produced about 155 billion pounds of milk, instead of the approximately 125 billions which they are delivering.

In contrast to the milkfat demand trend, the demand for solids-not-fat has been increasing, with per capita consumption reaching nearly 48 pounds in the last few years, compared with around 40 pounds 20 years ago. This reflects mainly increases in demand for low-fat and no-fat milk products in both manufactured and fluid forms, although consumption of ice cream, cheese and some other items also has increased. In 1961, demand for milkfat (via several products, especially butter) probably will drop further, demand for solids-not-fat may be stable.

The rise in demand for solids-not-fat has had little opportunity so far to affect prices of dairy products. The supply of this component of milk continues to exceed market demand at equivalent of support prices by a wide margin. The magnitude of this excess is indicated by the CCC purchases which recently have taken between 7 and 8 percent of production, compared with around 3 percent of the milkfat. Beyond this,

however, there is still retained on farms as much solids-not-fat as is being currently purchased under the Price Support Program. This provides a basis for increased sales by farmers each year for a number of years to come. It may be a whole decade before the complete transition to whole milk sales is completed. Consequently, the large surplus of milk solids-not-fat, as well as some surplus of milkfat, has persisted, despite a substantial drop in per capita production of milk. The output of milk per person in 1960 will be under 700 pounds, for the first time on record, compared with 840 pounds in the late 1930's and early 1940's.

Prices received for milk by farmers have changed less than prices for most other farm products during the last 5 years. Milk prices have drifted upward somewhat and have been equal to, or slightly above, the equivalent of supports during most of the period. By a separate law, the price support level on milk and butterfat has been increased for the period September 7, 1960 through March 31, 1961. The only immediate effect on market prices following administrative action to implement that law was a small rise in the price of nonfat dry milk. The price of butter, though below a year earlier, was, along with cheese, slightly above the new higher purchase price through the month of October. However, some butter was sold to the CCC during October, the first in that month in two years. No significant amount of cheese has been sold to the CCC during the current marketing year. Sales of nonfat dry milk have been essentially the same as in the preceding marketing year.

OUTLOOK FOR EGGS AND POULTRY IN 1961

Talk by Edward Karpoff
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., Wednesday, November 16, 1960

Egg prices so far in the year now closing have averaged 8 percent higher than in January-October 1959, broiler prices 7 percent higher, and turkey prices 12 percent higher. Even though 1959 was the kind of year few poultymen want to repeat, the contrast between 1959 and 1960 has headed many egg and poultry producers toward expansion. This interest in expansion makes the 1961 egg and poultry outlook to producers less favorable than the 1960 experience so far has been.

Egg prices will remain favorable to producers--seasonal factors considered--at least through the first quarter of 1961. Thus the stage will be set for an increase in chicks produced during the important hatching months of 1961, particularly in the early months of the hatching season.

But, as the hatching season progresses, the expected large hatches through the first quarter are likely to have an effect on the industry's thinking; if the hatchings show an increase as expected here, they will induce an expectation that egg supplies will be abundant in the last few months of 1961. This would in turn discourage storers and breakers from taking their usual springtime quantities of eggs, except at prices that are in line with the prices that they expect at the time when they would be taking their eggs or egg products out of storage.

Storers of shell eggs, and breakers who prepare frozen egg, are important springtime users of the seasonal surplus. This past spring, in February-June, 14 percent of the production on farms reached their hands, and in the preceding 5 years the range was 12-16 percent. Because their importance in the market is so great, these demands for storage and breaking are a principal factor in establishing the price of eggs in the spring. If the basis for establishing this demand has some bearish elements--i.e., a prospective large production in the fall--there will be an effect upon price even before the larger production occurs.

This is what I expect next spring--egg prices in line with the favorable prices of this fall until it becomes evident that the hatch will increase; this will become evident about the time the market becomes heavily dependent on storage demand; then prices will adjust downward, and the hatch will also decline (relatively speaking), so that the late hatch--in May and June--

may even be smaller than 1960. The likelihood of an adjustment in the late hatch to partially counter the adjustment in prices means that the price adjustment won't be a debacle such as April-June 1959, but the U. S. average egg price for the 3 months is unlikely to be up to 1960.

For the year as a whole, this would bring us out with an average egg price somewhere between the 31.1 cent average of 1959 and the figure of about 35 cents per dozen that I expect for 1960. The increase in production after mid-year won't fully offset the lower production in the fore part of 1961, and total production will therefore be smaller. Because population will meanwhile be larger, average per capita consumption will again decrease in 1961; it will be on the order of 310 eggs per person, compared with 325 in 1960, and 347 in 1959.

The poultry meat outlook differs from eggs only in that the production response is faster, and operates through a shorter production cycle. The prospective production increases in 1961 for both broilers and turkeys will be consequences partly of (1) the expansionary pressures related to the developing technology in those industries and the integrated form of organization common to both, and also (2) the favorable price experience that broiler and turkey producers are having in 1960.

These factors are behind the increase of 10 to 15 percent from last year in broiler hatchery activity since the beginning of September, and the 26 percent increase in the past 5 months in the number of pullet chicks sold for broiler breeder flocks. The first of these factors indicates an enlarged supply of broilers into the first quarter of 1961, and the second suggests a more readily available supply of hatching eggs in the last half of the year. The price adjustment to the prospective increase in broiler supply may come before the end of 1960, heading off a repetition of the contra-seasonal broiler price increase which occurred in December 1959.

Similar preliminary indications point to a turkey production increase in 1961, particularly among heavy turkeys (which are the same class that increased in 1960.) August and September hatches, and October 1 eggs in incubators, which are the basis for early-1961 marketings, are up 30 percent from the year before. Farmers' intentions to keep turkeys for breeding are up 23 percent.

The larger prospective marketings for early 1961, and the 37 percent larger storage holdings on October 1, are factors which suggest that in turkeys, as in broilers, there will not be a repetition of the price run-up which occurred late last year, and that prices at the beginning of 1961 will make their adjustments from an initial lower level than prevailed at the same time in 1960.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service
Institute of Home Economics

THE OUTLOOK FOR FAMILY CONSUMPTION AMONG LOW-INCOME FAMILIES

By Mary Jane Ellis, Household Economics Research Division

The limitations inherent in using annual expenditures to measure level of living have led to attempts to develop better measures. Such a measure would take into account the value of those nondurable goods and services the family buys or receives free. It would also value the use which they continue to get from durable goods purchased or given to them at an earlier time while omitting the proportion of the year's expenditures for durables that is not used up during the year of purchase. An ideal measure, reflecting long-term income, would eliminate some of the year-to-year fluctuations that are inherent in expenditure data. It would be valid for old as well as young families, for families living on farms or in cities, for small families and large families.

In 1957 the Household Economics Research Division began work on developing a measure of level of living which is termed the consumption value. This consumption value covers the family's expenditures for nondurable goods and services plus a comparable value for those goods and services received as gifts plus a valuation on home-produced food and fuel and a year's depreciation on the family home, its furnishings and equipment, on stocks of clothing, and the family share of automobiles and trucks. It does not value the public services which a family receives such as public education, police and fire protection, roads, post office service, or free medical care from private or public sources.

This more inclusive measure of level of living holds special interest for all who are concerned with a more accurate indicator of the economic well-being of families. The assessment of just how well off families in a particular region or families in a particular age group (or with some other characteristic) are, is most essential to sound planning of programs to improve the lot of those families. The use of the consumption value versus annual expenditures also can throw light on the relative differences among low-income families which are the special concern of these family living sessions.

Inasmuch as understanding of the consumption value concept and its merits relative to those of annual expenditures in measuring level of living is affected by the research methods used to develop these measures, a brief description of the collection of data and computation of values

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will be given here. 1/ This will be followed by examples of the differences between the two measures when they are used for families of different income levels, different sources of income, and other differing family characteristics.

Collection of consumption data

The data cited for both expenditure and consumption value were obtained from two studies conducted by this Division. The first of these was conducted in five counties in South Central Kentucky. Three of the counties--Cumberland, Metcalfe, and Monroe--were located in a State economic area in which low farm income had been designated as constituting a "serious" 2/ problem. The other two--Barren and Hart--were located in areas in which the problem was "moderate." The survey was made in conjunction with a study of resources and income of rural families conducted earlier by the Farm Economics Research Division of the Agricultural Research Service. The Kentucky Agricultural Experiment Station cooperated in the conduct of both surveys. The income data were collected by the Farm Economics Research Division and relate to the calendar year 1956; the family living data collected by the Household Economics Research Division relate to the 12-month period September 1956 through August 1957. The income data thus somewhat predate the expenditure data. This time relationship probably reflects more accurately the effect of income on spending than does the more usual classification of expenditures by income data relating to the same period. That is, families probably do not change their spending habits immediately as a result of increases or decreases in their income. This may be especially

1/ More detailed information will be available when the data are published in bulletins being prepared by Miss Jean L. Pennock.

2/ Under the Rural Development Program, State economic areas in which low farm income is a major problem have been designated on the basis of three criteria. Areas meeting all three criteria are termed "serious" low-income areas; those meeting two of the criteria, "substantial"; and those meeting one, "moderate." The criteria are:

(1) A residual farm income in 1949 of less than \$1,000 provided the State economic area had a level of living index below the average for the region and had 25 percent or more of its commercial farms classified as "low production." Residual farm income represents the income (including value of use of home) above operating expenses and a return to capital invested in land and machinery.

(2) A level of living index in the lowest fifth of the Nation.

(3) "Low-production" farms comprising 50 percent or more of the commercial farms. Low-production farms are those with sales of \$250-\$2,499 with the farm operator not working off farm as much as 100 days and farm sales exceeding family income from all other sources.

true for families dependent wholly, or in large part, on farm income. Since it is difficult for farmers to anticipate the amount of income which they will realize from the sale of their products, spending and consumption patterns in the succeeding year may be more closely associated with income of the preceding than with that of the concurrent year.

The second study in this series was conducted in the spring of 1959 in cooperation with the Texas Agricultural Experiment Station and covered five counties in East Texas. All five of these counties--Anderson, Cherokee, Nacogdoches, Rusk, and Smith--were located in a single State economic area which had been designated as a "serious" low-income area. In the Texas study the income and expenditure and consumption data relate to the same period--calendar 1958.

For both studies a sample was obtained that was representative of husband-wife families that had been formed for at least 1 year and that lived in the open-country areas of the counties from which the sample was drawn. Families in the sample were visited by trained interviewers who asked a schedule of questions designed to bring about the best recall of expenditures and gifts to all family members. The interviewers also obtained an inventory of furniture, equipment, and clothing and data on the size and condition of the house and the facilities it contained. This paper will be limited to a consideration of low-income families, here defined as those having a family income from all sources after payment of personal taxes of under \$2,500. This takes in 245 of the Kentucky families (71 percent) and 190 of the Texas families (54 percent).

There is, however, a difference in concepts of income from farm operations used in the two studies. Farm income in East Texas was adjusted for change in inventories of crops and livestock and depreciation on farm equipment. These adjustments were not made on the Kentucky farm income data. The level of farm income in the East Texas sample was reduced somewhat by these adjustments. This difference should be recognized whenever the families appear in an income classification.

Characteristics of the low-income families of the two studies

As described under collection of the data, some characteristics of families interviewed in these studies were prescribed by the design of the sample (i.e., husband-wife families formed for at least 1 year and living in the open country of the counties studied). Since some of the comparison of annual expenditures with consumption which is to follow will involve comparing the South Central Kentucky and East Texas families it is well to take note of some of their differences and likenesses at this time.

While both studies were made in low-income areas, the Texas area showed more variation in average incomes of families living in the open country. The average income for all families in the Texas study was \$2,677 while the comparable figure for the Kentucky study was \$2,087. However, when families earning more than \$2,500 were excluded, the situation is reversed and the average income of Kentucky low-income families of \$1,344 tops that of \$1,112 for the Texas families.

Families interviewed in each study lived in the open country but the Texas area was dotted with more small cities than was the Kentucky area, making nonfarm employment more easily available to the Texas families. While 31 percent of the low-income Kentucky families supported themselves entirely by farming, only 8 percent of the Texas families did. Forty percent of the Texas families and 23 percent of the Kentucky families reported no farm income.

The average family size of the Kentucky low-income families was slightly larger than that of the Texas low-income families (3.4 compared to 3.2 persons). Families in both studies were, by and large, of simple composition, being made up of husband, wife, and possibly their unmarried children.

The male head of the family tended to be older in the Texas study. While 41 percent of the Texas heads had reached age 60, only 34 percent of the Kentucky heads were that old. At the other end of the age range, only 12 percent of the Texas, contrasted with 24 percent of the Kentucky heads were under 40 years of age. Texas family heads had, on the average, attended school for a longer time than had the heads of Kentucky low-income families. Fifty-six percent of the Texas heads reported less than 8 years of schooling while 67 percent of the Kentucky heads were in this group. Very few heads in either study had any training beyond high school level.

A larger percentage of the low-income families of the Texas than of the Kentucky area were nonwhite, 32 percent as compared to 4 percent.

Method of computing consumption values

The computation of the value of consumption requires the assigning of values to nondurables and services obtained during the year without direct expenditure, and the determination of the current value of durables used by the family and of the proportion of that value used up during the schedule year.

Home-produced food and fuel received as gift or pay were valued at the prices rural families pay. The values were derived from the 1955 food study 3/ with adjustments for price changes. Free meals received by family members were assigned the average value of the meals served by the family. Other nondurable gifts were valued by the family.

Durables, other than clothing, were depreciated on the basis of a constant percentage of the remaining value. Except for clothing and selected household textiles, the depreciation rates used were obtained from sources other than these surveys. The respondents supplied the values for furnishings and equipment they had purchased. Items which had not been bought by the respondents were assigned the average original values of purchased items.

3/ Food Production for Home Use by Households in the United States--
by Region, Report No. 12 of Household Food Consumption Survey 1955.
Washington, 1958.

An estimate of the current value of the dwelling was derived from data on its size, type and grade of construction, degree of depreciation, and the facilities in it. The use value assigned the dwelling consisted of a year's depreciation on it and allowances for maintenance, taxes, insurance, and interest on the investment.

The current value of automobiles was taken from the "Official Used Car Guide" of the National Automobile Dealers Association. The depreciation rate used was based on the yearly decline in value over the lifetime of automobiles as reported in the guide.

The life span for clothing and selected household textiles was determined from the survey data by the use of inventory-acquisition ratios. Garments made at home or received as gifts were assigned the average value of garments purchased by the class. Not all furnishings and clothing could be inventoried because of the time required. Items not included in the inventory were, in general, those of relatively short life or small value. The average annual expenditure for these items by their class is included in their value of consumption.

Value of consumption compared with annual expenditures

In both these studies, the use of the value of consumption indicates that families were enjoying a level of living higher than that shown by the sum of their expenditures. In Kentucky, consumption was one and one-half times as high as expenditures, \$2,448 as compared with \$1,617. A precise comparison cannot be made for the Texas families, as the value of clothing consumption has not yet been computed, but the indications are that the difference is somewhat less. Omitting the clothing category from the comparison, the value of consumption for the Texas families exceeds their expenditures by 36 percent. The comparable percentage for the Kentucky families is 51 (table 1).

The most important factor contributing to the greater spread between consumption and expenditures in the Kentucky area was the greater role of home production among those families. The value of food consumed was more than double their expenditures for food, but in the Texas area food consumption exceeded food expenditures by only 50 percent. Home production in the form of farm-furnished fuel made a smaller but substantial contribution to the value of household operation among the Kentucky families, adding approximately 50 percent to this category. In Texas only 10 percent was added above expenditures in this category and a substantial part of this amount was in the form of utilities furnished by landlords to workers in the oilfields. 4/

Percentagewise, housing added more than food to the value of consumption, but since expenditures for housing were considerably smaller, the absolute gain was less. In Kentucky, low-income families had a

4/ For a fuller treatment of the role of home production in these areas, see "Improving Food Consumption of Rural Nonfarm Families," Eloise Cofer; speech at the 38th Annual Outlook Conference, U. S. Department of Agriculture, Washington D. C.

consumption value for housing which was 466 percent of their expenditures; in Texas the consumption value was 397 percent of expenditures. The gain is of such a magnitude for two reasons. 1) The outlays for housing of owners will usually be less than rent, which might be considered to be the consumption value of the dwelling, because of the owner's equity. 2) In consumption studies it is customary to assign mortgage interest payments and taxes or rent on farms to the farm business in toto because of the difficulty in determining the division between farm and family, thus considerably understating housing expenditures of farm families.

The value of consumption of clothing by the Kentucky families was slightly more than half again as great as their expenditures for clothing. This difference is the value assigned garments made at home in excess of the cost of materials in them and garments that were received as gift or pay.

In contrast to the foregoing categories in which consumption considerably exceeded expenditures, the reverse situation was true in house-furnishings and equipment, recreation and transportation in the Kentucky area. There low-income families were adding more to their stocks of durables in these categories than they used up during the year. In the Texas area additions to housefurnishings and equipment and the durables in recreation (principally TV and radio) were about in equilibrium with consumption, and consumption of transportation was 15 percent greater than expenditures for the category, indicating some depletion of the stock of automobiles. The difference in the age distribution of the two population groups is in part responsible for this difference as will be shown later.

The remaining categories added little above expenditures to the value of consumption--only the value of gifts received--and subtracted nothing.

The distribution of the components of consumption differs radically from the distribution of expenditures. Food, to which most was added in valuing consumption, is of much greater importance in the consumption distribution. Among the Kentucky families food accounted for 40 percent of consumption but only 29 percent of their expenditures. In the incomplete array of the Texas data it accounted for 43 percent of consumption; the addition of clothing to this array would drop it below the level in Kentucky.

The consumption value of housing also increased very greatly in importance in both areas. In the Kentucky area, the consumption value of household operation, increased by the value of home-produced fuel, bore about the same relationship to expenditures for household operation as did total consumption to total expenditures--150 percent and 151 percent, respectively. For this reason, household operation is of equal importance in the expenditure and consumption distributions. In the Texas area, the gain from home production and utilities received as pay was proportionately less than the overall gain and the category takes a smaller proportion of consumption than of expenditures.

In Kentucky, the gain in clothing is also in proportion to the total gain and this category, therefore, has the same position in the two distributions.

Since in Kentucky consumption was less than expenditures in house-furnishings and equipment, recreation and transportation while consumption was greater than expenditures for all family living, these categories are greatly diminished in importance in the consumption distribution for that area. The remaining categories which in dollar amounts were about equal in the two accounts, are somewhat diminished in the consumption distribution. In the Texas area, the group decreasing moderately in importance includes housefurnishings and equipment, recreation, and transportation, also.

Value of consumption by income level

Just as patterns in expenditures are associated with classifications of families by their characteristics, varied patterns of the value of consumption can also be distinguished. Differences between groups of families as to the value of consumption in many cases are less sharp than differences as to expenditures. The value of consumption shows somewhat less response than expenditures to change in the important classifier, income level. As a consequence, the gap between expenditures and consumption tends to narrow slightly as income rises. This can be seen in both the full range of categories in the Kentucky data and in the partial range of Texas data (table 2).

As income rose, the ratio of the value of consumption to expenditures fell only slightly in Kentucky, but dropped more in Texas. This was largely because the proportion of food produced at home or received as gift or pay fell off more rapidly as families moved up the income scale in Texas. The difference between housing expenditures and the use value of housing persisted to a greater extent in Texas than in Kentucky, also. The smaller proportion of nonfarm families in the income class \$1,500-\$2,500 than in the under-\$1,500 class in Kentucky is important here.

The Kentucky families at both income levels were adding to their stocks of furnishings and equipment and of TVs, radios, etc. Only families in the higher income class were adding to their stocks of cars and trucks, however. Among the Texas families additions to inventory of all kinds were less frequent. Expenditures slightly in excess of consumption were reported by families with incomes between \$1,500 and \$2,500 for housefurnishings and equipment and by the lower income group for recreational equipment. Both groups had consumption values higher than expenditures for transportation.

Among the Kentucky families, home sewing and gift clothing added proportionately less to the value of clothing among families above the \$1,500 income level than below it.

Consumption value by source of income

When alternative uses of human and physical resources are under consideration, the value of consumption provides a better measure of the level of living available through a given use of resources than do family

expenditures, for expenditures understate the level of living of families dependent on farming more than that of nonfarm families.

It is well known that farm families generally produce a larger part of their total food supply than do other rural families. This was true in both of these areas. In Kentucky the value of food consumed by families that farmed was 233 percent of the expenditures for food, and home production accounted for most of the difference (table 3). For nonfarm families in this area, total food was only 142 percent of that purchased. The lower level of home production in Texas, noted above, affected both farm and nonfarm families. Farm food consumption there was 171 percent of expenditures; nonfarm consumption was only 121 percent of expenditures.

Home production of fuel can also create a difference in the expenditure--consumption relationships of farm and nonfarm families. In Kentucky this factor was of more importance than in Texas. It raised the value of consumption of household operation to 162 percent of expenditures among farm families but only to 110 percent among nonfarm families. In Texas the upward change was virtually the same in the two groups--to 111 percent of expenditures among farm families and 109 percent among nonfarm families.

The understatement of housing involved in the methodology of expenditure surveys has already been commented on. In the Kentucky area it results in increasing housing consumption to 674 percent of expenditures for farm families but only to 239 percent for nonfarm families. In Texas the comparable figures are 698 percent and 214 percent.

The relationship between spending and the value of consumption for the durable goods categories, housefurnishings and equipment, recreation (covering TV, radio, and record players), and transportation, is less directly dependent on their farm status and more dependent on other factors, notably, the age composition of the group. In Kentucky, both the farm and nonfarm families were building up inventories of durable goods; in Texas, both groups were consuming at least as much as they bought in the year, with the exception that the nonfarm group was making small additions to their inventories of furnishings and equipment.

Other factors are probably more important than farm status in determining the relative increment to clothing from home sewing and gifts. In the Kentucky sample, the gain to the two groups was about the same.

As a result of this combination of factors, the Kentucky farm families had a higher value of consumption than their nonfarm neighbors although their expenditures were somewhat less, on the average. The level of living of the average full-time farm family was 26 percent higher than that of the average nonfarm family, and the average part-time farm family had a level of living exceeding the nonfarm family's by 19 percent.

Value of consumption by family size

Differences in family size have contributed to some of the differ-

ences in expenditures and values of consumption in the classifications by income level and sources of income discussed above. To see the effects of adding more persons to the basic husband-wife family the data are presented here without regard to income level or source (table 4).

In both studies an increase in family size was accompanied by an increase in average family consumption as well as annual expenditures. Adding another member to the family generally produced a greater change in annual expenditures than in annual consumption. However, expenditures and consumption made smaller increases with each additional member. Thus, while additional family members are maintained at a smaller cost per capita than members of the 2-person family, the larger family lives less well.

Not all the categories followed the pattern of total family living. The greatest divergence occurred in housing. Here consumption declined when the number of persons in the family rose above three. This was particularly noticeable in the Texas area where the family of 4 or more persons had an average value of consumption lower than either the 2- or 3-person family.

Expenditures for household operation in the Kentucky area tended to maintain approximately the same level regardless of family size while there was an increasing gain from home production as family size increased. In the Texas area, household operation rose both in expenditures and consumption when family size rose from 2 to 3 persons and subsequently fell. Home production and fuel as pay were more important than expenditures in the initial rise. The two were of approximately equal importance in the subsequent decline.

Among Kentucky families, home-produced and gift food increased proportionately more than expenditures when family size rose from 2 to 3 persons. Thereafter expenditures made the greater increase. In Texas, expenditures made greater increases than nonmoney sources throughout the range of family size.

Consumption of furnishings and equipment varied little with family size in Kentucky; there was greater variation but no established pattern in Texas. In general, expenditures were larger in the larger families, with the result that in all intervals except the 2-person, there was an appreciable gain in inventory in the course of the year.

The larger families in Kentucky (4 or more persons) were adding to their stocks of autos and trucks while smaller families were depleting their stocks. In Texas, families of all sizes were, on the average, cutting into inventory in this category. In both areas, consumption tended to fall off as family size increased.

The greatest gain in any category, both as to expenditures and value of consumption, was shown in the Kentucky clothing data when family size increased from 2 to 3 persons. Over the whole range of family size gains in this category were also greatest. Home sewing and gifts of clothing added proportionately less than expenditures as family size increased.

Value of consumption by age of head

Use of the value of consumption rather than expenditures as a measure of level of living is important when families are grouped by their position in the family life cycle, for expenditures tend to understate the level of living of older families more than that of younger families.

This is particularly true of the durable household goods. Early in its existence the family must get together a stock of household goods and in its expanding years it will have need of larger stocks. Depending on circumstances, families may continue to make net gains in household goods in later life or they may reach a point where acquisitions do not balance the use of goods on hand. In addition to income level, mobility, and other individual considerations, there are some changes within the economy that affect families regardless of their position in the family life cycle. When a new good appears on the market in quantity--as television in the postwar years--or when families previously debarred from ownership of a good are able to acquire it--as when electrification makes possible to rural families the ownership of a wide assortment of equipment--families of all ages may show net additions to inventory. There is also evidence that there comes a time well along in married life when many families refurbish their stocks of furnishings and for a second time show substantial net gains in inventory.

In the Kentucky area, families with male heads under 40 years of age spent at least half again as much as they used up in furnishings and equipment and in TV, radio, etc. (the latter two items not shown in the table). In these categories the level of living of young families was overstated by expenditures. Overstatement to a lesser degree continued until the family head was in the age interval 70 years and over. Among the Texas low-income families, expenditures also overstated the level of living among families with heads less than 50 years of age and again among heads 60 to 69 years of age.

It is probable that position in the family life cycle has less effect in determining whether inventories of automobiles and trucks are building up or being depleted and general economic conditions more. Factory sales of automobiles were considerably lower in 1958 than in 1956 and 1957. 5/ In 1958, we find the Texas families at all ages depleting their inventories as fast as, or slightly faster than, they were replacing them. In the earlier period of higher sales, however, the Kentucky families, with the exception of the oldest among them, were buying cars faster than they used them up.

In both areas home production tended to add proportionately more than expenditures to the family food supply as the family moved through its life cycle until the head became 70 years of age or more, a time of life when limitations on physical activity might be expected. The middle

5/ Automobile Facts and Figures, 1959-60 Edition. Automobile Manufacturers Association, p. 3.

years brought proportionately larger increases in home-produced food in the Kentucky area, in which home production practices were generally more widespread, than in Texas. In household operation, age of the head made relatively little difference in the proportion of home production until he had reached 70.

In the Kentucky area, for which we have complete clothing data, the ratio between expenditure and consumption in this category remained relatively stable throughout the family life cycle until the head was 70 or more when there was a substantial increase in the proportion of consumption stemming from home sewing or gifts. The data do not reveal which of these sources was responsible but it seems probable that the increase was in gifts.

Value of consumption by color

Approximately one-third of the low-income families in the Texas study were Negroes. These families were, on the average, larger than white families and had a slightly higher average income, but they spent less and had a lower value of consumption. The difference between the two groups was greater as to value of consumption than expenditures, the Negro families consuming only 78 percent as much as the white families but spending 85 percent as much (both figures excluding clothing).

One of the factors lowering the relative position of the Negroes' consumption more than their spending was the divergent movement of inventory in the two groups. Negro families were building up inventories of furnishings and equipment, TVs and radio, and approximately maintaining their inventories of automobiles, while white families were using up more than they replaced in all three categories. In all of these categories, Negro families' inventories, and consequently annual consumption, were markedly below those of white families--so far below in the case of furnishings and equipment that it could be built up by an expenditure that was insufficient to maintain the level of inventory among white families.

Negro families added relatively less to the value of their living by home production of food than did white families. On the other hand, home production of fuel or utilities received as pay added relatively more to their living than to that of white families.

The Negro family's average consumption value for housing showed a greater increase over expenditures than did the white family's. As measured by the value of consumption, however, the discrepancy between Negro and white families was greatest in this category, the Negro family's value of consumption being only 47 percent of the white.

What is the outlook for family consumption among low-income rural families?

The use of value of consumption as a measure of level of living indicates that low-income rural families enjoy a higher level of living

than would be assumed from their expenditures. Use of expenditures as a measure brings about the greatest understatement of level for those with the lowest incomes, those dependent in whole or in part on farming, and those with the oldest heads. This being so, family decisions and actions affecting the value of consumption are of major importance in determining the well-being of low-income families.

Studies indicate that in the future the low-income group will be composed of older families and the young, recently established families in increasing proportions. It is also reasonable to assume that families with heads unable to work because of a physical handicap or lacking the training necessary to compete successfully in the labor market will always be included in this group. The Kentucky and Texas studies show the way in which low-income families can improve their levels of living.

Low-income farm families may find it feasible to raise livestock, poultry, and a milk cow for the primary purpose of providing food for the family. In the case of the small family, the practicality of raising such products primarily for home consumption depends to some extent on whether or not surpluses above the family requirements can be disposed of at a reasonable price. For low-income nonfarm families, the land and equipment required for raising livestock and poultry may be another deterrent. On the other hand, many low-income rural families, both farm and nonfarm, with garden space available could improve their level of living by raising vegetables to use fresh and to can or freeze. All families can profit by sewing and repairing clothing at home and finding satisfactory ways of exchanging children's clothing.

It must be recognized that with younger families a lower level of consumption in the immediate future when accompanied by a building up of inventory will mean a higher level in the years to come. For these families, programs which stress money management, the wise buying of consumer goods, sensible use of credit, and proper maintenance of household appliances will have particular value.

While these studies make no attempt to measure the time or energy of family members involved in increasing consumption, these are considerations that individual families cannot ignore.

Table 1.--Family living expenditures and consumption of low-income families in South Central Kentucky, 1956-57, and East Texas, 1958

Category	South Central Kentucky			East Texas		
	Expenditure	Consumption	Ratio	Expenditure	Consumption	Ratio
	Dol.	Dol.	Pct.	Dol.	Dol.	Pct.
Number of families		245			190	
Average income 1/		\$1,344			\$1,112	
Average family size		3.4			3.2	
	Average per family and ratio of consumption to expenditure					
	Expenditure	Consumption	Ratio	Expenditure	Consumption	Ratio
All categories	1,617	2,448	151	1,949	2/ 2,395	2/ 136
Food and beverages	467	978	209	681	1,022	150
Housing	56	261	466	76	302	397
Household operation	159	238	150	203	224	110
Housefurnishings and equipment	139	114	82	131	133	102
Clothing	181	275	152	188	NA	NA
Transportation	242	227	94	246	284	115
Medical care	205	205	100	242	242	100
Personal care	42	44	105	53	56	106
Tobacco	46	46	100	49	49	100
Recreation	62	40	64	55	57	104
Reading and education ..	14	15	107	18	18	100
Other goods and services	5	5	100	8	8	100
	Percentage distribution					
	Expenditure	Consumption		Expenditure	Consumption excluding clothing	
		Incl.	Excl.			
Expenditure		clothing	clothing	Expenditure		Consumption excluding clothing
All categories	100.0	100.0	100.0	100.0		100.0
Food and beverages	28.9	40.0	45.0	34.9		42.7
Housing	3.5	10.7	12.0	3.9		12.6
Household operation	9.8	9.7	11.0	10.4		9.4
Housefurnishings and equipment	8.6	4.7	5.2	6.7		5.6
Clothing	11.2	11.2	--	9.6		--
Transportation	15.0	9.3	10.4	12.6		11.9
Medical care	12.7	8.4	9.4	12.4		10.1
Personal care	2.6	1.8	2.0	2.7		2.3
Tobacco	2.8	1.9	2.1	2.5		2.0
Recreation	3.8	1.6	1.8	2.8		2.4
Reading and education ..	.9	.6	.7	.9		.8
Other goods and services	.3	.2	.2	.4		.3

Note: Components may not add to totals due to rounding.

1/ Net family income after taxes with East Texas farm income adjusted for inventory change and depreciation of farm equipment.

2/ Total does not include clothing.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 2.--Family living expenditures and consumption of low-income families in South Central Kentucky, 1956-57, and East Texas, 1958, by income level 1/

Category	South Central Kentucky							
	Under \$1,500		\$1,500-\$2,499					
Percent of families					56.3	43.7		
Average family size/.....					3.2	3.6		
	Average per family and ratio of consumption to expenditure							
	Expenditure	Consumption	Ratio	Expenditure	Consumption	Ratio		
	Dol.	Dol.	Pct.	Dol.	Dol.	Pct.		
All categories	1,405	2,179	155	1,891	2,796	148		
Food and beverages	417	892	214	531	1,090	205		
Housing	42	217	517	73	317	434		
Household operation	139	216	155	184	267	145		
Housefurnishings and equipment	118	95	80	167	139	83		
Clothing	153	243	159	217	317	146		
Transportation	177	181	102	326	286	88		
Medical care	215	215	100	193	193	100		
Personal care	35	37	106	51	53	104		
Tobacco	39	40	103	54	54	100		
Recreation	57	32	56	68	51	75		
Reading and education	9	10	111	21	22	105		
Other goods and services	3	3	100	8	8	100		
	East Texas							
Percent of families					65.3	34.7		
Average family size					2.9	3.7		
All categories	1,720	--	--	2,379	--	--		
All categories except clothing	1,556	2,241	144	2,146	2,689	125		
Food and beverages	602	954	158	830	1,150	139		
Housing	61	311	510	103	286	278		
Household operation	204	226	111	202	220	109		
Housefurnishings and equipment	117	126	108	157	147	94		
Clothing	164	NA	NA	233	NA	NA		
Transportation	180	227	126	370	391	106		
Medical care	235	235	100	255	255	100		
Personal care	45	49	109	67	71	106		
Tobacco	41	42	102	63	64	102		
Recreation	52	51	98	61	67	110		
Reading and education	15	15	100	24	24	100		
Other goods and services	5	5	100	14	14	100		

Note: Components may not add to totals due to rounding.

1/ Net family income after taxes with East Texas farm incomes adjusted for inventory change and depreciation of farm equipment.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 3.--Average expenditure and consumption of low-income families in South Central Kentucky, 1956-57, and East Texas, 1958, by source of income

Category	South Central Kentucky						East Texas					
	Farm only			1-99 percent farm			Some farm			All nonfarm		
Percent of families	30.6		46.5			60.5			39.5			
Average family size	3.7		3.3			3.1			3.3			
Average per family and ratio of consumption to expenditure												
Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.
Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars
All categories	1,694	2,639	156	1,548	2,498	161	1,655	2,094	126			
All categories except housing	1,660	2,392	144	1,507	2,236	148	1,539	2,017	118			
Food and beverages	501	1,104	220	418	1,014	243	520	737	142			
Housing	34	247	726	41	262	639	116	277	239			
Household operation	171	253	148	148	257	174	163	180	110			
Housefurnishings and equipment	147	118	80	145	117	81	118	102	86			
Clothing	215	310	144	174	271	156	151	236	156			
Transportation	244	247	101	246	218	89	230	218	95			
Other 1/	381	359	94	377	356	94	357	344	96			
Average per family and ratio of consumption to expenditure												
Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.	Cons.	Ratio	Exp.
Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars	Dollars	Percent	Dollars
All categories except clothing	1,659	2,497	150	150	150	1,919	1,919	100	2,43	2,43	100	2,43
All categories except clothing and housing	1,611	2,162	134	1,801	1,801	1,991	1,991	110				
Food and beverages	648	1,109	171	733	733	888	888	121				
Housing	48	335	698	118	118	252	252	214				
Household operation	217	241	111	182	182	198	198	109				
Housefurnishings and equipment	131	138	105	130	130	126	126	97				
Clothing	196	NA	NA	175	175	NA	NA	NA				
Transportation	220	271	123	286	286	304	304	106				
Other 1/	395	403	102	470	470	475	475	101				

Note: Components may not add to totals due to rounding.

1/ Includes medical and personal care, tobacco, recreation, reading and education, other goods and services.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, THE.

Table 4.-Changes in average expenditure and consumption of low-income families in South Central Kentucky, 1956-57, and East Texas, 1958, by family size

Category	South Central Kentucky						East Texas					
	2 person	3 person	4 person	5 or more persons	2 person	3 person	2 person	3 person	5 or more persons	2 person	3 person	4 or more persons
Percent of families	40.4	22.9	14.7	22.0	52.6	21.1	52.6	21.1	26.3	52.6	21.1	26.3
	Average per family (dollars)											
Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.
All categories	1,270	1,979	1,611	2,510	1,881	2,791	2,084	3,016	1,582	NA	2,227	NA
All categories except clothing	1,160	1,800	1,409	2,213	1,649	2,470	1,829	2,618	1,471	2,090	1,968	2,680
Food and beverages	352	737	420	958	540	1,159	677	1,322	527	832	710	1,056
Housing	66	269	50	281	44	245	50	234	70	325	94	343
Household operation	155	222	162	241	163	252	159	258	189	200	253	290
Housefurnishings and equipment	115	112	144	117	162	117	163	111	104	126	162	152
Clothing	110	179	202	297	232	321	255	398	111	NA	259	159
Transportation	163	172	211	215	331	309	358	286	208	224	271	356
Other 1/	308	289	423	401	410	388	422	405	373	383	478	483
	Percentage change from next smaller interval											
Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.
All categories	127	127	117	111	111	108	141	NA	111	NA	111	NA
All categories except clothing	122	123	117	112	111	106	134	128	111	136	127	104
Food and beverages	119	130	129	121	125	114	135	134	106	106	130	65
Housing	76	104	88	87	114	96	134	134	102	145	77	76
Household operation	104	109	101	105	98	102	134	134	102	145	76	76
Housefurnishings and equipment	125	104	112	100	101	95	156	121	NA	NA	98	88
Clothing	184	166	115	108	110	124	233	130	159	110	NA	NA
Transportation	129	125	157	144	108	93	104	128	126	111	97	100
Other 1/	137	139	97	103	NA	NA	NA	NA	NA	NA	NA	NA

Note: Components may not add to totals due to rounding.

1/ Includes medical and personal care, tobacco, recreation, reading and education, other goods and services.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 5.-Family living expenditures and consumption of low-income families in South Central Kentucky, 1956-57, and East Texas, 1958, by age of head

Category	South Central Kentucky families by age of head						East Texas families by age of head					
	Under 40 years	40-49 years	50-59 years	19.2	18.4	60-69 years	19.2	18.4	60-69 years	19.2	18.4	60-69 years
Percent of families ...	24.1	23.3	19.2	18.4	18.4	17.0	19.2	18.4	17.0	19.5	19.5	17.0
Average family size ...	3.9	4.1	3.9	3.2	3.0	2.3	3.2	3.0	2.3	2.3	2.3	2.3
	Average per family (dollars)						Average per family (dollars)					
Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.
All categories	1,940	2,606	1,805	2,667	1,635	2,619	1,538	2,488	886	1,595	886	1,595
Food and beverages ...	551	1,006	553	1,068	470	1,094	380	973	298	658	298	658
Housing	65	255	54	265	61	265	51	286	41	225	41	225
Household operation ..	148	229	175	253	157	247	175	269	133	183	133	183
Housefurnishings and equipment	216	124	133	114	124	113	133	125	53	84	53	84
Clothing	229	334	218	323	173	275	177	258	60	127	60	127
Transportation	337	303	280	273	245	237	244	214	24	38	24	38
Other	393	354	392	371	403	386	377	362	277	279	277	279
	Average per family (dollars)						Average per family (dollars)					
Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.	Cons.	Exp.
All categories	2,311	NA	2,026	NA	1,764	NA	1,469	NA	1,469	NA	1,469	NA
All categories except clothing	2,048	2,612	1,837	2,526	1,599	2,356	1,377	1,911	1,377	1,911	1,377	1,911
Food and beverages ...	811	1,154	749	1,087	581	993	488	751	488	751	488	751
Housing	63	250	70	296	82	362	97	329	97	329	97	329
Housefurnishings and equipment	215	234	197	215	219	255	176	186	176	186	176	186
Clothing	167	148	103	129	144	135	99	115	99	115	99	115
Transportation	263	NA	189	NA	165	NA	92	NA	92	NA	92	NA
Other <u>l</u>	318	354	278	345	203	241	132	132	132	132	132	132
	475	472	440	454	369	370	384	398	384	398	384	398

Note: Components may not add to totals due to rounding.

l/ Includes medical and personal care, tobacco, recreation, reading and education, other goods and services.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 6.-Family living expenditure and consumption of low-income families in East Texas, 1958, by color

Category	White		Nonwhite	
	Number of families	Average family size	Number of families	Average family size
Average per family and ratios based on averages				
Expenditure	Consumption	Ratio, consumption to expenditure	Expenditure	Percent consumption to expenditure
Dollars	Dollars	Percent	Dollars	Percent
2,023	NA	NA	1,790	88
1,846	2,578	140	1,577	85
710	1,088	153	619	87
93	363	390	37	40
225	236	105	155	69
132	141	107	127	96
177	NA	NA	213	120
251	305	122	235	94
258	258	100	206	80
49	53	108	60	122
53	54	102	40	76
52	59	114	61	117
16	17	106	21	131
4	4	100	17	425

Note: Components may not add to totals due to rounding.

Source: Preliminary data from U. S. Department of Agriculture, Household Economics Research Division, THE.

UNITED STATES DEPARTMENT OF AGRICULTURE

Agricultural Research Service

Institute of Home Economics

THE OUTLOOK FOR FAMILY LIVING EXPENDITURES AMONG LOW-INCOME RURAL FAMILIES

By Laura Mae Webb, Household Economics Research Division

The plight of low-income rural families has been receiving considerable attention from governmental agencies and private organizations in the past several years. The Rural Development Program, a cooperative effort of Federal, State, and local governments, of private organizations and of local residents, was initiated in 1955 in an effort to improve the economic position of families, both farm and nonfarm, in low-income rural areas.

A substantial amount of information relative to family living expenditures of low-income rural families, and characteristics of these families, is available from three surveys made by the U. S. Department of Agriculture in the past few years. All three of these surveys add to our knowledge of how low-income rural families are living and provide background information for programs to improve rural levels of living. The first, a cooperative effort of the Agricultural Research Service and the Agricultural Marketing Service, was a nationwide survey of 3,845 farm-operator families relating to the year 1955. Approximately 49 percent of these families reported net family money incomes of less than \$2,000 after taxes for that year. The second and third were smaller scale surveys made by the Household Economics Research Division of the ARS in low-income areas in the South.

Expenditures of farm-operator families

The major objective of the 1955 survey was to obtain expenditure data for the development of price index weights; data on expenditures, therefore, were requested in considerable detail. In order to keep the interview time at a minimum, global questions were asked on income; consequently, serious limitations exist regarding these income data. For the U.S.A. as a whole, the net money income from farm operations reported in this survey was about two-thirds that of the USDA's estimate based on other sources; the off-farm income reported was about in line with other estimates.

The understatement of total net income is believed to be greater for the high- and low-income groups than for the middle-income groups; for the sample as a whole, it is about 15 percent under the Department's other estimates. It is important in interpreting the family living expenditures

reported by the low-income families that this probable understatement of income be kept in mind. In this paper the term "income" refers to net income after payment of personal taxes. Off-farm income includes social security and welfare payments, pensions and income from investments as well as wages and salaries from off-farm employment.

Before examining the family living expenditures of low-income farm operators in detail it might be well to compare the distribution of their expenditures with those of higher income farm-operator families (tables 1 and 2). Food and medical care costs represented higher proportions of the expenditures of low-income families than of middle and upper income families. The proportion of expenditures going to household operation showed some tendency--but less marked than for food and medical care--to decline as income increased.

Expenditures for commodities and services usually associated with a higher level of living, such as recreation, transportation, and food away from home were substantially higher, in both absolute and relative terms, for the higher income families than for the low-income families.

Low-income operators--for this purpose I am including families with net income under \$2,000 in discussing the 1955 survey--differed in several ways from operators with higher incomes. Seventy-one percent of the low-income farm operators were 45 years of age or older compared with 55 percent of farm operators with incomes of \$2,000 or more. Seventy-two percent of the low-income operators had less than 9 years schooling, compared with 50 percent of the operators with higher incomes. While all families operated a farm, 40 percent of the families with incomes under \$2,000 were entirely dependent on farm income compared with 19 percent of the other families. In evaluating the spending patterns of the low-income group, it is well to keep in mind that these families are characterized by older age, less schooling, and less off-farm income.

Expenditures for food and beverages accounted for nearly one-third of the average U. S. low-income farm-operator family's expenditures (table 3). As would be expected, food expenditures varied appreciably by family size, ranging from \$491 for 2-person families to \$871 for families of six or more persons (table 4). Per capita expenditures for food and beverages varied from \$246 in 2-person families to \$116 in families of six or more persons. There was little difference between the level of expenditures for food and beverages reported by families who derived all their income from farming and those who derived 50 to 99 percent of their income from farming. However, families who obtained less than half of their income from farm sources spent about 12 percent more for food and beverages than did the other two groups.

Expenses for shelter, which includes dwelling upkeep, housefurnishings and equipment and household operation, represented the second highest category of expenditures and accounted for nearly one-fourth of these low-income farm-operator families' expenditures. Families with some off-farm income spent about 10 percent more for shelter than did families who were completely dependent on farm income. Families of younger

operators had appreciably higher expenditures for shelter than did the older families. This is to be expected since older families have usually built up an inventory of household goods in earlier years.

Clothing costs represented about 13 percent of the average low-income family's expenditures. While total family clothing expenditures were highest for families of six or more persons, per capita clothing costs were lowest for this group. Per capita clothing costs were substantially lower for families in which the head was 65 years of age or older than for the younger families.

Medical care costs represented, on the average, nearly 10 percent of these low-income families' expenditures. Such costs were especially burdensome to older families; per capita medical costs were \$87 in families in which the operator was 65 years of age or older, compared with \$48 for families in which the operator was 25-44 years of age.

Transportation costs represented 10 percent of the average family's expenditures. Families who obtained less than half their income from farm sources spent somewhat more in dollar terms for transportation than did the other two groups. However, these low-income families probably had little transportation costs to off-farm employment; much of the off-farm income received by these families represented social security and other benefit payments. Families in which the operator was 65 years of age or older reported substantially lower transportation costs dollarwise than did families in which the operator was under 45 years of age. However, transportation expenses accounted for a larger share of the older families' total expenditures since their total expenditures were less than those of the younger families.

That there are differences between spending patterns of low-income farm-operator families in various geographic regions is indicated by a comparison of data from the North Central and Southern regions--the only areas for which family living expenditures have been tabulated by income level. Average family expenditures reported by southern operators were lower than those reported by northern operators. This is to have been expected since 82 percent of the low-income families in the South had incomes of less than \$1,500, compared with 74 percent in the North Central region. Food and clothing took a larger share of the average Southern family's expenditures than of the North Central family's; shelter costs represented an appreciably larger share of the latter's expenditures.

Expenditures of rural families in low-income areas of Kentucky and Texas

The Household Economics Research Division has made two family expenditure surveys in low-income rural areas in the past several years in order to provide information that would be helpful to Extension personnel and others engaged in the Rural Development Program. 1/ Initially,

1/ These two surveys were under the supervision of Miss Jean Pennock who is preparing bulletins on the surveys.

the Rural Development Program was limited to designated State economic areas in which low farm income was a major problem. Low-income areas, for purposes of the Rural Development Program, were determined on the basis of three criteria: Net income of full-time farmers, level of living index, and size of farm operations. 2/ Areas which met all three criteria were designated "serious" low-income areas; those to which two applied were designated "substantial" and those to which one applied as "moderate." 3/ This Division's surveys were conducted in selected counties located in areas designated as serious or moderate in South Central Kentucky and serious in East Texas.

One of the main objectives of these surveys was to obtain data that would provide a comparison of the levels of living attained by families engaged in full-time farming with those of families engaged in part-time farming and those wholly dependent on income from nonfarm sources. The sample design of these surveys differed, therefore, in several ways from that of the 1955 survey. Respondents were families living in the open country, regardless of the source of their income; the 1955 survey was limited to farm-operator families. Because of the relatively small samples in each of the surveys, only families headed by both husband and wife were included; this limitation had not been placed on the 1955 sample design.

The first of these studies was conducted in five counties in South Central Kentucky. Three of the counties--Cumberland, Metcalfe, and Monroe--were located in a State economic area in which low farm incomes had been designated as constituting a "serious" problem. The other two counties--Barren and Hart--were located in areas in which the problem was "moderate." This survey was made in conjunction with a study of resources and incomes of rural families conducted earlier by the Farm Economics Research Division of the Agricultural Research Service. The

2/ U. S. Department of Agriculture, Development of Agriculture's Human Resources: A Report on Problems of Low-Income Farmers, p. 8. April 1955.

These criteria were delineated as follows:

(1) A residual farm income in 1949 of less than \$1,000 provided the State economic area had a level of living index below the average for the region and had 25 percent or more of its commercial farms classified as "low production." Residual farm income represents the income (including value of use of home) above operating expenses and a return to capital invested in land and machinery.

(2) A level of living index in the lowest fifth of the nation.

(3) "Low production" farms comprising 50 percent or more of the commercial farms. Low production farms are those with sales of \$250-\$2,499 with the farm operator not working off farm as much as 100 days and farm sales exceeding family income from all other sources.

3/ Ibid., p. 7.

Kentucky Agricultural Experiment Station cooperated in the conduct of both surveys. The income data were collected by the Farm Economics Research Division and relate to the calendar year 1956; the family living expenditure data collected by the Household Economics Research Division relate to the 12-month period September 1956 through August 1957. The income data thus somewhat predate the expenditure data. This time relationship probably reflects more accurately the effect of income on spending than does the more usual classification of expenditures by income data relating to the same period. That is, families probably do not change their spending habits immediately as a result of increases or decreases in their incomes. This may be especially true for families dependent wholly, or in large part, on farm income. Since it is difficult for farmers to anticipate the amount of income which they will realize from the sale of their products, spending patterns in the succeeding year may be more closely associated with income of the preceding year.

The second study in this series was conducted in the spring of 1959 in cooperation with the Texas Agricultural Experiment Station and covered five counties in eastern Texas. All five of these counties--Anderson, Cherokee, Nacogdoches, Rusk, and Smith--were located in a single State economic area which had been designated as a "serious" low-income area. In the Texas study the income and expenditure data relate to the same period--calendar 1958.

The income concepts used in these two surveys differ somewhat. The most important differences are that farm income in the East Texas survey has been adjusted for inventory change and depreciation on farm equipment; these adjustments were not made on the farm income data reported in the Kentucky survey. These adjustments reduced the level of farm income somewhat in the East Texas sample. This difference should be taken into account in making comparison of expenditures classified by income.

The Kentucky and Texas counties included in these two surveys share the problem of low income; 245 (71 percent) of the families surveyed in Kentucky and 190 (54 percent) of those in Texas had incomes under \$2,500. Only data relating to families with incomes under \$2,500 will be included in this paper. Although these two areas shared the problem of low income, they were very different in some respects. The Texas area had a city of approximately 50,000 and a town of close to 10,000 in every county; the Kentucky area had one town of about 10,000 and no other town as large as 2,500. Thirty-two percent of the low-income Texas families were nonwhite compared with 10 percent of the Kentucky families. The average family size was about the same in the two areas--3.4 persons in Kentucky and 3.2 in Texas. In the Texas area the nonwhite families were much larger than the white families--4.1 persons compared with 2.8 persons.

These low-income families (incomes under \$2,500) in both areas were older than the average U. S. rural population; nearly 53 percent of the Kentucky families (table 6) and 69 percent of Texas families (table 8) were headed by husbands 50 years of age or older. The educational level

attained by the family heads was low; 44 percent of the Texas husbands and only 33 percent of the Kentucky husbands had an eighth grade or better education. A considerably larger proportion of the Kentucky families were dependent on income from farm sources. About 31 percent of these families derived all their income from farm sources and another 46 percent derived some income from farm sources, while only 23 percent were completely dependent on nonfarm income (table 5). On the other hand, 40 percent of the Texas families derived all their income from non-farm sources (table 7).

While all of these families had incomes of less than \$2,500, a larger proportion of the Texas families had incomes of less than \$1,500--65 percent in Texas as compared with 56 percent in Kentucky. The fact that the Texas area had a much larger proportion of elderly families, 93 percent of whom received some retirement or public assistance income, probably accounts for much of this difference.

The spending patterns of these low-income families in the two areas show some differences and some similarities. As indicated earlier, the difference in income concepts used in the two surveys reduced the level of farm income in the Texas data somewhat. This should be kept in mind in comparing the level of expenditures in the two areas.

The average Texas family spent a larger share of its budget for food and beverages than did the Kentucky family at comparable income levels. In both Kentucky and Texas, families with some farm income spent appreciably less for food than did families entirely dependent on income from nonfarm sources. Although the nonwhite Texas families had lower total expenditures, on the average, than white families, their expenditures for clothing and "other" were larger--both in absolute and relative amounts--than those of white families.

Shelter accounted for slightly more than one-fifth of the average family's expenditures in both areas. While families whose heads were 70 years of age or older spent less for shelter than did those in the lower age brackets, such costs represented a larger share of the elderly families' total expenditures. Shelter expenditures reported by Texas nonwhite families were substantially lower--in both absolute and relative terms--than for white.

Both of these surveys indicate, as did the 1955 survey, the very heavy medical expenses borne by the elderly. In both areas, the elderly families spent appreciably more for medical care than did families whose heads were between 30 and 49 years, although families in the latter group average about twice as many persons.

Texas families entirely dependent on nonfarm income spent more for transportation--in both absolute and relative terms--than did families with some farm income. In contrast, among the Kentucky families, those families with no farm income spent less for transportation than the other families. Transportation for farm business is excluded, of course, in transportation costs for family living. Although elderly families in

both areas reported much lower transportation expenditures than did the younger families, elderly families in Kentucky spent substantially less for transportation than did those in that age group in Texas.

Outlook for family living expenditures in low-income rural areas

One of the major goals of the Rural Development Program is to help low-income farm families than have the desire and ability to stay in agriculture to gain the necessary land, tools, and skills to improve their economic position; another goal is to develop more off-farm job opportunities for other low-income rural families. As these goals are achieved, we would expect many of the younger and better educated families to move into higher income brackets.

With families of the younger, better educated heads moving into higher income brackets, the lower income group will contain an even larger concentration of elderly families than is now the case. Let us consider what changes we can expect in their living expenditures as a result of price increases in the near future. Prices of food, which represent about one-third of the average low-income elderly family's budget, are not expected to be any higher in 1961 than in 1960. While the introduction of a greater number of compact cars in lower price ranges, and the concurrent decline in used car prices, will be of an advantage to car buyers in 1961, it is unlikely that many low-income elderly families will be in the market for cars. It is probable that most of their transportation expenses will be for repair of the old automobile and for gasoline and oil. Prices for these items, as well as for automobile registration and insurance, have been rising steadily; indications are that this trend will continue in 1961.

During the past decade prices for services have risen much more rapidly than have prices for commodities. Elderly families may be even more disadvantaged by rising service costs than are younger families. Medical care costs, which are especially burdensome to older families, are continuing their rapid advance. There is no indication that charges for such services will level off soon. Instead, predictions are that the shortage of doctors, already serious in many areas, will worsen in the near future. Recent legislation provides that the Federal Government will match State funds devoted to assisting elderly low-income families not on public assistance meet their medical costs. To what extent individual States will initiate programs qualifying them to obtain such funds remains to be seen. Charges for electricity, often a relatively major expenditure to low-income elderly families, are continuing to increase.

Other factors affecting levels of living

Annual expenditures for goods and services have long been used as one measure of the level of living of families. However, such a measure

is inadequate in several respects. Probably its greatest inadequacy with respect to families living in open country is the omission of the value of home-produced food and fuel.

A second area in which expenditures provide an inadequate measure of the level of living is in housing. For farm families actual outlays for housing are usually understated in family living studies. Because there is no basis for allocating taxes, mortgage interest and insurance on buildings between family living expenses and farm business expenses they are usually allocated to the latter. Nor do expenditures made for housing in any year necessarily provide a good basis for evaluating the quality of the housing occupied by the family, regardless of whether it is a farm or nonfarm family.

Another limitation to the use of annual expenditure data as a measure of the level of living of families is the fact that such data do not reflect ownership of goods purchased in earlier years which provided use value to the family in the survey year. This may be an especially important factor with older families. Conversely, the use of expenditures for goods and services purchased in the survey year which provide use in subsequent years as a measure of a family's level of living may lead to an overstatement of its level of living.

In order to obtain a more accurate picture of the level of living of families in the Kentucky and Texas survey areas than could be provided by an evaluation of their annual expenditures, considerable information was obtained on the quality of the housing these families occupied, their inventories of household furniture, appliances and major items of clothing, and the value of the home-produced food, fuel, and clothing used during the survey year. Another report will describe in what ways these factors give us a different picture of the levels of living attained by these low-income families than is provided by an evaluation of their expenditures alone.^{4/} But after evaluating all of these data, I am sure that we will agree that, by the standards of living of our "affluent" society, these low-income families are far from well off.

^{4/} "The Value of Family Consumption of Low-Income Rural Families" by Mary Jane Ellis, presented at the 38th Annual Agricultural Outlook Conference, November 16, 1960.

Table 1...Family living expenditures of farm-operator families,
by disposable family money income, United States, 1955

Category	Money income after taxes					
	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,999	\$3,000-\$3,999	\$4,000-\$7,499
Percent of families	12	11	10	18	13	14
Average family size	3.2	3.5	3.8	4.1	4.2	4.3
Average expenditure per family (dollars)						
Total expenditures	1,621	2,006	2,480	2,931	3,372	4,428
Food and beverages--total	535	631	771	850	976	1,195
At home	476	553	669	721	811	968
Away from home	54	74	96	122	154	213
Dwelling upkeep	102	120	142	174	203	322
Furnishings and equipment	115	140	182	217	246	327
Household operation	176	220	270	313	343	426
Clothing	208	270	361	425	454	624
Medical care	145	186	209	249	271	320
Transportation	164	211	268	368	479	688
Recreation	52	74	95	125	157	200
Personal care	39	50	62	70	76	106
Tobacco	33	42	48	51	57	65
Reading and education ...	18	28	38	43	50	69
Other goods and services.	35	34	34	47	58	84

Note: Components may not add to totals due to rounding.

Source: U. S. Department of Agriculture, Statistical Bulletin No. 224,
Farmers' Expenditures in 1955 by Regions, Table 21, p. 69. April 1958.

Table 2---Percentage distribution of family living expenditures of farm-operator families, by disposable family money income, United States, 1955

Category	Money income after taxes					
	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,999	\$3,000-\$3,999	\$4,000-\$7,499
Percent of families	12	11	10	18	13	14
Average family size	3.2	3.5	3.8	4.1	4.2	4.3
Percentage distribution						
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages--total	33.0	31.4	31.2	29.0	28.9	27.0
At home	29.4	27.6	27.0	24.6	24.1	21.9
Away from home	3.3	3.7	3.9	4.2	4.6	4.8
Dwelling upkeep	6.3	6.0	5.7	5.9	6.0	7.3
Furnishings and equipment	7.1	7.0	7.3	7.4	7.3	7.4
Household operation	10.9	11.0	10.9	10.7	10.2	9.6
Clothing--total	12.8	13.4	14.6	14.5	13.5	14.1
Medical care	8.9	9.3	8.4	8.4	8.0	7.2
Transportation	10.1	10.5	10.8	12.6	14.2	15.5
Recreation	3.2	3.7	3.8	4.3	4.7	4.5
Personal care	2.4	2.5	2.5	2.4	2.3	2.4
Tobacco	2.0	2.1	1.9	1.7	1.7	1.5
Reading and education ...	1.1	1.4	1.5	1.5	1.5	1.6
Other goods and services.	2.2	1.7	1.4	1.6	1.7	1.9

Note: Components may not add to totals due to rounding.

Source: U. S. Department of Agriculture, Statistical Bulletin No. 224, Farmers' Expenditures in 1955 by Regions, Table 21, p. 69. April 1958.

Table 3...Family living expenditures of farm-operator families with incomes under \$2,000, by disposable family money income, for two regions and the United States, 1955

Category	Money income after taxes									
	United States			North Central Region			Southern Region			
	Under \$2,000	Under \$1,500	\$1,500- \$1,999	Under \$2,000	Under \$1,500	\$1,500- \$1,999	Under \$2,000	Under \$1,500	\$1,500- \$1,999	Under \$1,500
Percent of families	100.0	78.3	21.7	100.0	74.1	25.9	100.0	81.7	18.3	4.3
Average family size	3.4	3.4	3.8	3.2	3.2	3.3	3.6	3.5	4.3	
Average expenditure per family (dollars)										
Total expenditures	2,001	1,868	2,480	2,277	2,202	2,494	1,728	1,582	2,385	
Food and beverages	637	599	771	688	675	727	573	528	773	
Shelter 1/	478	446	594	587	567	644	371	340	511	
Clothing	270	244	361	284	267	332	258	228	396	
Medical care	190	185	209	207	207	205	173	166	204	
Transportation	204	186	268	234	212	298	175	159	245	
Other family expenses 2/ ..	223	208	278	278	275	288	179	161	257	
Percentage distribution										
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages	31.8	32.0	31.0	30.1	30.7	29.2	33.1	33.3	32.3	
Shelter 1/	23.9	23.9	24.0	25.8	25.7	25.9	21.5	21.5	21.4	
Clothing	13.5	13.1	14.6	12.5	12.1	13.3	14.9	14.4	16.6	
Medical care	9.5	9.9	8.4	9.1	9.4	8.2	10.0	10.5	8.6	
Transportation	10.2	10.0	10.8	10.3	9.6	11.9	10.1	10.1	10.3	
Other family expenses 2/ ..	11.1	11.1	11.2	12.2	12.5	11.5	10.4	10.2	10.8	

Note: Components may not add to totals due to rounding.

1/ Includes dwelling upkeep, housefurnishings and equipment, and household operation.

2/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family living expenses.

Source: U. S. Department of Agriculture, Statistical Bulletin No. 224, Farmers' Expenditures in 1955 by Regions, adapted from tables 21, 22, and 23. April 1958.

Table 4.--Family living expenditures of farm-operator families with disposable family money incomes under \$2,000, by source of income, and by selected family characteristics, United States, 1955

Category	Source of income		Family size			Age of operator			
	Farm only	50-99% farm	49% or less farm persons	2 persons	3-5 persons	6 or more persons	25-44 years	45-64 years	65 years and older
Percent of families	40.3	19.4	40.3	37.6	40.0	14.9	27.6	44.1	27.0
Average family size	3.4	3.5	3.5	2.0	4.0	7.5	4.6	3.4	2.3
	Average expenditure per family (dollars)								
Total expenditures	1,907	1,993	2,099	1,575	2,399	2,459	2,443	2,033	1,505
Food and beverages	610	602	680	491	741	871	769	659	472
<u>Shelter</u> 1/	452	505	490	428	558	475	574	472	387
Clothing	254	283	279	158	339	453	362	288	149
Medical care	185	181	199	189	210	199	221	165	195
Transportation	192	202	217	158	267	182	226	219	153
Other family expenses 2/	213	221	234	151	284	279	289	230	144
	Percentage distribution								
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages	32.0	30.2	32.5	31.2	30.9	35.5	31.6	32.4	31.4
<u>Shelter</u> 1/	23.7	25.3	23.3	27.2	23.3	19.3	23.5	23.2	25.7
Clothing	13.3	14.2	13.3	10.0	14.1	18.4	14.8	14.2	9.9
Medical care	9.7	9.1	9.5	12.0	8.8	8.1	9.0	8.1	13.2
Transportation	10.1	10.1	10.3	10.0	11.1	7.4	9.3	10.8	10.2
Other family expenses 2/	11.2	11.1	9.6	11.8	11.3	11.8	11.3	11.3	9.6

Note: Components may not add to totals due to rounding.

1/ Includes dwelling upkeep, housefurnishings and equipment, and household operation.

2/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family living expenses.

Source: Unpublished data from U. S. Department of Agriculture, Farmers' Expenditures in 1955 by Regions, Household Economics Research Division, IHE.

Table 5....Family living expenditures of low-income families in South Central Kentucky for family living, Sept. 1956-Aug. 1957, by income level and source of income

Category	Income level 1/			Source of income			
	All under \$2,500	Under \$1,500	\$1,500-\$2,499	Farm only	50-99% farm	1-49% farm	Nonfarm only
Percent of families .	100.0	56.3	43.7	30.6	26.5	20.0	22.9
Average family size .	3.4	3.2	3.6	3.7	3.3	3.2	3.2
Average expenditure per family (dollars)							
Total expenditures ..	1,617	1,405	1,891	1,694	1,566	1,524	1,655
Food and beverages.	467	417	531	500	451	374	520
Shelter 2/	353	299	424	351	338	327	397
Clothing	181	153	217	215	184	160	151
Medical care	205	215	193	184	197	244	210
Transportation	242	177	326	244	226	273	230
Other family expenses 3/	169	143	202	199	171	146	146
Percentage distribution							
Total expenditures ..	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages.	28.8	29.7	28.0	29.6	28.8	24.5	31.5
Shelter 2/	21.8	21.3	22.4	20.7	21.6	21.5	24.0
Clothing	11.2	10.9	11.5	12.7	11.7	10.5	9.1
Medical care	12.7	15.3	10.2	10.9	12.6	16.0	12.7
Transportation	15.0	12.6	17.2	14.4	14.4	17.9	13.9
Other family expenses 3/	10.5	10.2	10.7	11.7	10.9	9.6	8.8

Note: Components may not add to totals due to rounding.

1/ Family income after personal taxes.

2/ Includes housing, housefurnishings and equipment, and household operation.

3/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family expenses.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 6.--Family living expenditures of low-income families in South Central Kentucky for family living, Sept. 1956-Aug. 1957, by selected family characteristics

Category	Family size <u>1/</u>			Age of head			
	2 persons	3-5 persons	6 or more persons	Under 30 years	30-49 years	50-69 years	70 years and older
Percent of families.	40.4	48.6	11.0	12.7	34.7	37.5	15.1
Average family size.	2.0	3.7	7.0	3.4	4.2	3.1	2.3
Average expenditure per family (dollars)							
Total expenditures .	1,270	1,831	1,950	2,025	1,818	1,588	886
Food and beverages	352	514	679	559	550	426	298
Shelter <u>2/</u>	336	365	367	511	354	351	227
Clothing	110	229	227	217	227	175	60
Medical care	193	219	193	193	180	221	235
Transportation ...	163	295	296	313	308	244	24
Other family expenses <u>3/</u>	115	210	187	232	201	169	41
Percentage distribution							
Total expenditures .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages	27.7	28.0	34.9	27.6	30.2	26.9	33.8
Shelter <u>2/</u>	26.5	19.9	18.8	25.2	19.4	22.2	25.6
Clothing	8.7	12.5	11.6	10.7	12.5	11.0	6.8
Medical care	15.2	12.0	9.9	9.5	9.9	13.9	26.5
Transportation ...	12.8	16.1	15.2	15.5	16.9	15.4	2.7
Other family expenses <u>3/</u>	9.1	11.5	9.6	11.5	11.1	10.6	4.6

Note: Components may not add to totals due to rounding.

1/ Family size in equivalent 52-week persons.

2/ Includes housing, housefurnishings and equipment, and household operation.

3/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family expenses.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 7.--Family living expenditures of low-income families in East Texas, 1958, by income level and source of income

Category	Income level 1/			Source of income	
	All under \$2,500	Under \$1,500	\$1,500-\$2,499	Some farm	All nonfarm
Percent of families	100.0	65.3	34.7	60.5	39.5
Average family size	3.2	2.9	3.7	3.1	3.3
Average expenditure per family (dollars)					
Total expenditures	1,949	1,720	2,379	1,855	2,094
Food and beverages	681	602	830	648	733
Shelter 2/	410	382	462	396	430
Clothing	188	164	233	196	175
Medical care	242	235	255	227	264
Transportation	246	180	370	220	286
Other family expenses 3/	183	158	229	168	206
Percentage distribution					
Total expenditures	100.0	100.0	100.0	100.0	100.0
Food and beverages	34.9	35.0	34.9	34.9	35.0
Shelter 2/	21.0	22.2	19.4	21.3	20.5
Clothing	9.6	9.5	9.8	10.6	8.4
Medical care	12.4	13.7	10.7	12.2	12.6
Transportation	12.6	10.5	15.6	11.9	13.7
Other family expenses 3/	9.4	9.2	9.6	9.1	9.8

Note: Components may not add to totals due to rounding.

1/ Family income after personal taxes, adjusted for change in inventory of crops and livestock and net of depreciation on farm machinery.

2/ Includes housing, housefurnishings and equipment, and household operation.

3/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family expenses.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

Table 8.--Family living expenditures of low-income families in East Texas, 1958,
by selected family characteristics

Category	Family size 1/			Age of head			Color	
	2 persons	3-5 persons	6 or more persons	30-49 years	50-69 years	70 years and over	White	Nonwhite
Percent of families	52.6	36.3	11.1	26.8	49.5	19.5	68.4	31.6
Average family size	2.0	3.5	7.7	4.6	2.7	2.3	2.8	4.1
Average expenditure per family (dollars)								
Total expenditures	1,582	2,308	2,522	2,335	1,911	1,469	2,023	1,790
Food and beverages	527	785	1,075	813	676	488	710	619
Shelter 2/	363	498	344	454	403	372	451	320
Clothing	111	255	332	281	179	92	177	213
Medical care	251	244	191	201	246	288	258	206
Transportation	208	295	264	312	245	132	251	235
Other family expenses 3/	122	231	316	274	162	97	176	198
Percentage distribution								
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and beverages	33.3	34.0	42.6	34.8	35.4	33.2	35.1	34.6
Shelter 2/	22.9	21.6	13.6	19.4	21.1	25.3	22.3	17.9
Clothing	7.0	11.0	13.2	12.0	9.4	6.3	8.7	11.9
Medical care	15.9	10.6	7.6	8.6	12.9	19.6	12.8	11.5
Transportation	13.1	12.8	10.5	13.4	12.8	9.0	12.4	13.1
Other family expenses 3/	7.7	10.0	12.5	11.7	8.5	6.6	8.7	11.1

Note: Components may not add to totals due to rounding.

1/ In year-equivalent persons.

2/ Includes housing, housefurnishings and equipment, and household operation.

3/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family expenses.

Source: Unpublished data from U. S. Department of Agriculture, Household Economics Research Division, IHE.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1960-61

Statement presented by George W. Kromer
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 16, 1960

The long run uptrend in supplies of food fats and oils in the U. S. will be temporarily halted during the 1960-61 marketing year as the outlook is for a slight reduction in supply from the 1959-60 record. However, supplies of food fats in 1961-62 probably will again increase and be record large.

The total U. S. supply of food fats during the 1960-61 marketing year which began October 1 is forecast at 14.1 billion pounds (oil equivalent of oilseeds), only 0.1 billion pounds less than the record quantity available last year. Smaller beginning stocks on October 1, 1960--mainly of soybeans--account for the reduction in supply as output in 1960-61 is expected to be slightly above the previous year.

Domestic disappearance of food fats in the year ahead is expected to continue at about the 1959-60 rate of 46.5 pounds (fat content) per person. With the growth in population expected, total domestic use should increase by over 0.1 billion pounds. These prospects indicate that the quantities of food fats (edible oils, lard and soybeans) available for export in 1960-61, while 0.2 billion pounds less than last year's availabilities, will be nearly as large as the record 3.9 billion pounds shipped abroad in 1959-60.

Exports prospects for food fats and oils through September 1961 appear bright. In fact, with many foreign countries such as Japan, Spain, and the countries of Western Europe continuing to need substantial quantities of these fats, exports will be as large as the 3.9 billion pounds (including the oil equivalent of oilseeds) in the marketing year just completed. Thus a close balance between our exportable supplies and export demand in 1960-61 appears likely. The actual balance will depend on the size of foreign oilseed crops, for many of which reliable estimates will not be available until early 1961, and on world political and economic developments.

Exports of edible oils (cottonseed and soybean oils) in 1960-61 probably will set a new record of about 1.5 billion pounds compared with the 1,450 million pounds the previous year. However, more soybean oil, but slightly less cottonseed oil, likely will move abroad during the current marketing year.

Exports of cottonseed and soybean oils under P. L. 480 during the 1960-61 marketing year are expected to be up more than a fourth from the 700 million pounds shipped out in 1959-60. Most of the increase would be in movement of oil to Spain where the olive crop is smaller than last year. Program exports to Poland, Pakistan, and the UAR may be slightly higher in 1960-61 than a year earlier. Iran and India will take oil under P. L. 480 during the coming year, their first under the program. Greece will take P. L. 480 oil because her olive oil output will be down and Chile also will take oil under the program. Such increases will be partly offset by a drastic decline in the shipment of edible oils to Turkey as the political situation in that country has created a confused picture. Program exports in 1960-61 are expected to account for nearly two-thirds of the total edible oils shipped compared with about 45 percent in 1959-60.

While oil exports for dollars in 1960-61 will continue high, they are likely to face increased competition in supplies of oils and oilseeds from countries competing in our dollar markets.

Soybean oil exports during 1960-61 are forecast at a record of over 1.0 billion pounds compared with 950 million last year. The increase would reflect a heavier movement of oil under P. L. 480, primarily to Spain. On the other hand, cotton oil exports may be down somewhat from the 500 million pounds in 1959-60.

A large proportion of this year's export volume of edible oil is expected to move out this fall and winter, whereas last year edible oil exports were relatively small during October-March 1959-60--they accounted for only 42 percent of the year's total. The main reason for the shift to the early part of the year during 1960-61 is the strong export demand for soybean oil, not only that primarily from Spain, but also from the other P. L. 480 countries. Sales of cottonseed oil for dollars are also expected to be heavy in the first half of the marketing year, as in 1959-60.

Other factors in the outlook for U. S. exports of food fats and oils include: (1) Major importing areas, such as Western Europe and Japan, will continue to need to import large quantities of edible oils and oilseeds; (2) output of olive oil in 1960-61 will be less than that in the previous year in the Mediterranean Basin, particularly Spain, the major taker of edible oils under P. L. 480; (3) possible small reduction of exports of palm and palm kernel oil from the Congo, a major exporter, due to political difficulties; (4) rising population and a high level of economic activity in most parts of the world; (5) increased exportable supplies of Philippine Copra, Canadian rapeseed, and African peanuts; and (6) Russia's sunflower crop should be up sharply.

Over the long term, the outlook for U. S. exports of edible oilseeds, and their products appears bright. Population increases and the uptrend in per capita consumption suggest an expanding market, and foreign output is not likely to show any major sustained expansion. We may at times have difficulty in moving large supplies, but in the long run U. S. exportable supplies, though large, should be able to move in the export market.

Now let us turn to the outlook for individual commodities.

Soybean supplies in the 1960-61 marketing year are placed at 585 million bushels, slightly below the record level of the previous two seasons. The 1960 soybean crop is up 4 percent but carryover stocks of old crop beans on October 1, 1960 were 23 million bushels--only about a third as much as the 62 million bushels on the same date a year earlier. But "free" supplies going into the new marketing year were much larger than a year earlier because only about 9 million bushels of soybeans were in the hands of CCC compared with 58 million (including reseal beans) on October 1, 1959.

As prospective supplies of soybeans this year are in close balance with probable demand this year, the season average price to farmers for 1960 crop beans may average about \$2.00 per bushel or approximately the same as in 1959. But more seasonal variation in soybean prices is expected this year than last.

Farm prices of new crop soybeans averaged \$1.94 per bushel in October--this is slightly above the national support loan level. Farm prices during most of the 1960 harvesting season are expected to average a little above the support rate of \$1.85 per bushel.

After this fall's harvest lows, soybean prices to farmers likely will make more than their usual seasonal increase.

As CCC now holds only about 9 million bushels of soybeans, during the course of the marketing year, its sales policy will have less effect on prices than last year--at least until maturity of 1960 crop loans. CCC's minimum soybean sales price for November is about 17.5 cents over the basic loan rate. Each month through May 1961 the Corporation will add 1.65 cents per bushel carrying charges to its minimum sales price.

Soybean crushings during the 1960-61 marketing year are forecast at 400 million bushels, not much different from the preceding two seasons. A bean crush this size would produce about 4.4 billion pounds of crude soybean oil and about 9.3 million tons of soybean meal.

Domestic demand for soybean oil is forecast at a record 3.4 billion pounds, up slightly from the 1959-60 marketing year. The forecast assumes (1) total use of food fats will remain at about 46.5 pounds (fat content) per person; (2) supplies of lard during 1960-61 will be down sharply; and (3) more cottonseed oil will be used domestically this year than last. On these assumptions, a bean crush of 400 million bushels would produce about 1.0 billion pounds of oil in excess of domestic requirements. This excess is likely to move into export.

Domestic use of soybean meal is expected to be greater in 1960-61 than in 1959-60. Increased feeding of high protein feeds should be encouraged this fall when hog prices are expected to be higher than last fall. This condition should at least offset the effect of the smaller number of hogs to be fed this fall than last. Expansion in the 1960 spring pig crop likewise should be encouraged by better hog prices. When hog prices were low last fall and winter, farmers tended to use lower-priced feed grains rather than protein feeds, which were priced rather high at that time. Furthermore, in 1959-60 a considerable quantity of wet corn had to be consumed by hogs or other livestock to avoid loss, a development that tended to reduce the demand for protein supplements during the 1959-60 feeding year.

Other factors in the soybean meal outlook for 1960-61 include (1) reduced export demand (2) increasing domestic demand for livestock products because of rising population and incomes, (3) more cattle on feed, (4) an increase in broiler production, and (5) larger supplies of soybean meal available for domestic feeding at slightly lower prices than in 1959-60. Most of the price difference probably will occur this fall and winter.

According to trade estimates, soybean crushing capacity in 1960-61 will be about 525 million bushels compared with 500 million the past season. Thus there will be more unused crushing capacity during the year ahead in relation to the quantity of beans available for crushing than in 1959-60. This should result in continued strong competition for beans and a continuation of relatively small processing margins.

The price spread between the farm price for soybeans and value of the oil and meal obtained from the bushel of soybeans in 1960-61 probably will average slightly above the 23 cents per bushel in 1959-60, which was the smallest since 1954. This would result from slightly lower soybean meal prices against bean prices just as high as last year and assumes the oil would carry a larger share of the total value this year. Increased crushing capacity, however, should tend to exert pressure on processing margins throughout the 1960-61 season.

Exports continue to grow as an outlet for soybeans and soybean products. Over 40 percent of the 1959 soybean crop was shipped abroad--141 million bushels as beans and the equivalent of another 86 million bushels as soybean oil.

With foreign demand for beans expected to continue strong, exports are forecast at 140 million bushels, about the same as those in 1959-60. Bean exports to Italy and Japan may show some further increase in 1960-61 and this may about offset a slight decline in the movement to some other countries. Nevertheless, major importing areas, such as Western Europe, will continue to need large imports of U. S. oilseeds and/or oilseed products. A factor tending to hold down our soybean exports this marketing year is the limited supply available for export.

If seed and feed requirements are about the same as in recent years and crushing and export estimates are reasonably accurate, carryover stocks of soybeans on October 1, 1961 may be around 10 million bushels, only about half as much as this year.

Soybean oil prices (crude, Decatur) during the 1960-61 marketing year are expected to average around 9.5-10 cents per pound, about 15-20 percent higher than the 8.3 cents in 1959-60. Bean oil prices in late October were 9.6 cents per pound, about 1.2 cents above the same date last year. Prices will probably remain relatively firm this fall with the strong possibility of some increase later in the year. The optimistic outlook for bean oil prices in 1960-61 stems from (1) a new high in domestic consumption, (2) record exports caused by larger shipments under P. L. 480, especially in the first half of the marketing year, (3) reduced supplies of competitive lard, and (4) a slightly higher level of food fats and oils prices in general.

The outlook is for soybean acreage to expand some in 1961, with favorable prices of soybeans at spring planting time relative to the support price for corn likely being an encouraging factor. If the uptrend in soybean use is to continue into 1961-62, production must also expand as starting stocks next October 1 are expected to be at a minimum.

Cottonseed production in 1960-61 is placed at 6,020,000 tons, about the same as a year ago. Prices to farmers are expected to average about the same as the \$39 per ton they receive for the 1959 crop. This would also be slightly above the 1960 CCC purchase price of \$34 per ton, basis grade (100).

Cottonseed oil output is forecast at 1,875 million pounds compared with 1,861 million in 1959-60. Domestic use is expected to total around 1,400 million pounds, approximately 10 percent more than last year.

Cotton oil prices during the heavy October-December 1960 production months are likely to average moderately above the 9.2 cents per pound (crude, tank cars, Valley) that prevailed during these same months last year. Cotton oil prices later in the marketing year probably will show some seasonal price increase as usual, and the average price for the entire 1960-61 season is likely to average slightly higher than the 10.0 cents per pound in 1959-60. Dominant factors in the price outlook for cottonseed oil during 1960-61 are (1) lateness of the 1960 cottonseed crop; (2) heavy export movement of cottonseed oil, especially in the first half of this marketing year; (3) reduced supplies of lard in the U. S.; and (4) increased domestic consumption of cotton oil.

Lard output (including farm) in the 1960-61 marketing year, which began October 1, is forecast at 2,600 million pounds, about 5 percent less than the 2,750 million produced a year earlier. The indicated decrease reflects a drop in hog slaughter as lard yields per hog are expected to continue close to last year's relatively low level.

Domestic disappearance of lard in 1960-61 is forecast at 2,000 million pounds, slightly less than that in the previous year. The slight drop would mainly reflect reduced consumption of lard in the manufacture of shortening.

Export and shipments of lard during 1960-61 are forecast at 600 million pounds compared with 725 million the last marketing year. Exports to the United Kingdom, largest single market for U. S. lard, are expected to drop mainly because of higher prices which makes our lard less competitive with that from Continental Europe. Also, the uncertain situation with Cuba, our second largest customer, likely will result in smaller exports of lard to that country in the year ahead.

Lard prices (tanks, loose, Chicago) during the 1960-61 marketing year are expected to average around 10 percent higher than the 8.2 cents per pound in 1959-60. Lard prices this fall and winter probably will remain sharply above the low levels of last year. During the spring of 1961 the price differential over the previous year will narrow. During the summer of 1961 lard prices should fall below those in the summer of 1960, unless hog slaughter and lard production change significantly from present indications.

The USDA announced on October 27, 1960 it will purchase limited quantities of lard with Section 32 funds and will distribute it domestically to needy persons, institutions, and other eligible outlets. Last year, the USDA purchased about 62 million pounds of lard during October-April 1959-60 for domestic donation.

Flaxseed supplies in the 1960-61 marketing year, which began July 1, are estimated at 34 million bushels compared with 37 million the previous year. Crushings of flaxseed for domestic oil use may be around 21 million bushels, and an additional 4 million will probably be needed for seed and feed. With 3 million bushels of flaxseed needed as a minimum carryover, a maximum of only 6 million bushels of flaxseed would be available for export. Based upon inspection data, about 2 million bushels were exported by October 21 and the remainder is expected to move out at prices above those reflecting the support level. However, world prices have been trending downward mainly because world production is greater than a year ago and exportable supplies from Canada and Argentina are larger. Prices to farmers will be more stable than last year and will average above the 1960 support price of \$2.38 per bushel, but well below the \$3.02 received for the 1959 crop.

Certainly one of the most outstanding features in the fats and oils economy in recent years has been the spectacular increase in inedible tallow and grease production and exports. In the past decade, output increased from 2.3 billion pounds in 1951-52 to a record 3.5 billion in 1959-60, a rise of over 50 percent, and most of this has moved into export. Exports increased from 0.7 billion pounds to 1.8 billion during this same period.

Inedible tallow and grease output in 1960-61 is forecast at 3.7 billion pounds, about 4 percent more than last year. Cattle slaughter is expected to continue its uptrend during 1960-61 but hog slaughter probably will drop about 5 percent. Domestic use of inedible tallow and greases is forecast at 1.8 billion pounds or about the same as the last 3 years. Exports are forecast at 1.9 billion pounds, up slightly from the record 1,750 million shipped out in 1959-60. The outlook for the year ahead is for inedible tallow prices to continue at a relatively low level, probably not much different from the year before.

: This is a summary of the 1961 Outlook :
: Issue of "The Fats and Oils Situation" :
: for November 1960, a processed publi- :
: cation by the Agricultural Economics :
: Division, AMS :
:

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

OUTLOOK FOR FEED IN 1961

Talk by Malcolm Clough
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 2:00 P.M., Tuesday, November 15, 1960

The outlook for feed in 1960-61 follows a pattern similar to other recent years. This year supplies of feed grains and other concentrates have increased again, reaching a new record high for the seventh straight year. Prices of feed grains and protein feeds probably will average just a little lower than in 1959-60 and consumption is expected to continue heavy. Even with heavy utilization of feed grains in 1960-61, 1960 production is expected to again exceed total utilization, resulting in a further increase in carryover at the close of the year.

The total supply of feed concentrates has gone up steadily since World War II as both production and carryover have increased. The total supply this year is estimated at 270 million tons, 7 million more than in 1959-60. This rise, due entirely to larger carryover, is about half the average rise of the previous 7 years when supplies increased at an average rate of 14 million tons a year. The total supply this year is about double the supply of 20 years ago.

Total disappearance of feed grains also has increased substantially over the past several years. Domestic consumption has increased nearly a third in the last 5 years, reflecting more liberal feeding of livestock on farms. Feeding is expected to continue heavy in 1960-61. Exports about doubled from 1954 to the record level of around 12.5 million tons reached in the last 2 years. Exports may decline a little from this high level in 1960-61.

Even though utilization has increased rapidly in recent years it has consistently fallen below production. While the yearly addition to stocks has not been large, the combined effect has been to raise carryover from 20 million tons in 1952 to 75 million tons this year. The total carryover, now on hand, is nearly half of our total annual feed grain requirement for domestic use and exports. Practically all of the increase in carryover has gone into CCC stocks. Government stocks made up about 87 percent of the total carryover into 1960-61. Even with a continuation of heavy consumption in 1960-61, the near-record crop this year is expected to again exceed total disappearance. Carryover into 1961-62 probably will rise around 5 to 10 percent over the 75 million tons carried over this year.

The corn supply for 1960-61 totals over 6 billion bushels for the first time, 3 percent over 1959-60 and a third above the 1954-58 average. Although the 1960 corn got off to a late start, favorable weather through the summer and fall resulted in a crop of nearly 4.3 billion bushels, only slightly below the 1959 record. Total disappearance of corn has increased sharply in recent years. Disappearance in 1959-60 of 4.1 billion bushels was more than a billion bushels larger than 5 years ago.

If disappearance should continue at about this level in 1960-61, the carryover would increase to nearly 2.0 billion bushels on October 1, 1961.

In 1960 sorghum production exceeded 500 million bushels for the fourth year, more than double production in any year prior to 1957. Domestic use and exports of sorghum grain has been increasing in recent years. But, carryover stocks also have mounted and the 1960-61 supply rose to nearly 1.2 billion bushels, more than 4 times the supply in 1956. The 1960 crop of a little over 600 million bushels probably will again exceed total disappearance resulting in a further moderate rise in stocks in 1961.

The steady drop in oat acreage since 1955 has brought 1959-oat production below current requirements and carryover was reduced about 100 million bushels from 1959 to 1960. The 1960 crop, however, is up 10 percent from the short crop last year, but the total supply is about equal to last year's small supply and little change in the carryover is in prospect. Barley production also was below the utilization in 1959-60 and stocks were reduced about 14 percent. The 1960 crop was slightly smaller than last year, but near the 5-year average. Domestic use and exports are expected to be a little smaller in 1960-61 and carryover into 1961-62 will remain near the 1960 level.

Turning now to the demand side of the picture, smaller pig crops this year are expected to result in a slight drop in the number of animal units to be fed in 1960-61. Total animal units declined 2 million from 1958-59 to 1959-60 and they are expected to drop another 2 million in 1960-61 to 166 million units. Fewer hens in prospect for this winter also probably will result in reduction in the number to be fed in 1960-61. But, a further increase is in prospect in cattle feeding.

Over the past 5 years, there has been only a moderate increase in the number of animal units on farms. But, the rate of feed concentrates consumed per animal unit has increased about 20 percent, accounting for most of the over-all increase in consumption since 1954. Livestock feed price ratios are generally more favorable now than in early 1959-60 and feeding rates are expected to continue high during the coming year.

Feed grain prices have been a little lower this fall than a year ago and probably will average a little lower for the entire 1960-61 feeding year. Another big crop, a slight reduction in livestock on farms and the lower support for 1960 corn are important factors influencing prices this year. Generally lower feed prices this fall have been accompanied by higher prices for most livestock and livestock products. Livestock-feed price ratios are more favorable for hog and poultry producers and dairymen this fall than last. Feed prices have been low in relation to livestock prices during the past 3 years and are expected to continue so in 1960-61.

The national average support price for corn is \$1.06 per bushel, 6 cents lower than in 1959. Price supports for the other feed grains are the same as in 1959. Prices of corn and sorghum grain are expected to fall somewhat below the support level at harvest time this fall then rise later in the marketing year to near or above the supports. Prices of both oats and barley are generally above the 1960 price supports, although they probably will average a little lower than in 1959-60.

Oat prices continue high this year relative to most other feeds, reflecting another short supply.

After increasing steadily during the previous 5 years, the quantity of high-protein feeds fed to livestock and poultry declined a little in 1959-60. This decline has been principally in soybean meal and fish meal. Total protein feed supplies available for feeding in 1960-61 are expected to be a little larger than in 1959-60. Total production of protein feed is expected to be at least as large as in 1959-60 while exports probably will be below last years' high level. This would leave a little more available for domestic feeding, especially during the fall and winter. Prices of high-protein feed probably will average a little lower than in 1959-60.

Soybean meal prices in 1960-61 are expected to follow nearer the normal seasonal pattern than in 1959-60. Domestic and export demand will not be as strong as a year earlier this fall and winter and prices are expected to remain lower than a year earlier during this period. Later in the marketing year prices probably will strengthen if demand for hog and poultry feeds improves. In 1959-60 soybean meal prices reached their highest level in January then declined to August. This is counter the normal seasonal pattern based on prices during 1948-59. In this period prices rose from a seasonal low of 94 in October to 110 in August.

Longer-Term Trends In The Feed Situation--I. Of the various trends in the feed situation, probably none has been more important than the upward trend in yield per acre. The combined yield of the four major feed grains in the United States has increased around 60 percent since 1937-41 exceeding 1 ton per acre, in each of the last 4 years. Weather has played a part in these high yields as we have had generally favorable growing seasons in recent years. But increased use of commercial fertilizer, improvement in varieties, including the development of corn and sorghum hybrids, and wider use of irrigation have been major contributors to rising yields.

II. There has been little net change in total feed grain acreage during the past 20 years. The total acreage in 1958-60 was within 1 percent of the 1937-41 average. With feed grain acreage about stable, the upward trend in yields has resulted in corresponding increase in production. Production has increased about 40 percent in the last 8 years and 60 percent in the last 20 years. While feed grain utilization--both domestic and export--has trended upward sharply since 1952, total disappearance has consistently fallen below production. The average annual difference has been about 7 million tons or 5 percent of production.

III. A more recent development in the feed picture, which can not necessarily be considered as a trend, is the marked jump in corn acreage from 1958 to 1959 and 1960 and the rather sharp drop in oat acreage since 1955. The sharp increase in corn acreage reflects the termination of the corn Acreage Allotment and the Acreage Reserve Programs. Oat acreage has dropped 30 percent from the record 1955 level to 1960. In those 5 years, more than 14 million acres have been diverted from oats to other uses. The Conservation Reserve program and higher corn acreage probably have absorbed most of these acres.

Changes in corn and oats acreage and production have resulted in a sharp increase in oats prices relative to corn. Oat prices have averaged about 90 percent of corn prices per 100 pounds in the last 10 years or about in line with their relative feeding value. In 1955 the record oat supply brought the season average price received by farmers for oats down to 78 percent of corn. In 1959-60, with the short 1959 crop, oat prices rose to 109 percent of corn. Oat prices are expected to continue high in relation to corn at least for the 1960-61 season.

IV. Over the years there have been some rather pronounced trends in the relation between feed prices and livestock prices. The hog-corn price ratio has trended upward over the past 30 years. The increase in other production costs relative to corn has tended to increase the prices required for hogs relative to corn. Price supports for corn may have a bearing since the hog-corn farmer is given more assurance on future corn prices than hog prices. The big corn crops in recent years also may have tended to lower corn prices relative to hogs, as compared with the 1930's when there were a number of short crops. While there has been rather uniform and pronounced cyclical swings in the beef steer-corn price ratio, it also has trended upward, reflecting rising beef cattle prices in relation to corn. In general, the same forces that influenced the hog-corn ratio would apply to the beef steer-corn price ratio, as well as improvement in the quality of beef produced.

While hog and cattle prices have trended upward relative to corn prices, poultry and egg prices have declined relative to feed costs. In the early 1930's the average price of 1 dozen eggs was equivalent in value to 13.0 pounds of poultry ration. The long-term downward trend in the ratio brought it down to only a little above 10 pounds in recent years. In the last 10 years, there has been a similar trend in the broiler-feed price ratio. The decline in the poultry and egg-feed price ratios reflects increasing efficiency in converting feed to poultry and eggs, as well as, a general lowering of per unit cost in poultry production through more efficient and larger scale production.

V. Finally, there has been an upward trend in the quantity of feed grain and other feed concentrates fed per animal. All feed concentrates fed per animal unit have increased nearly 40 percent since 1937-41, while the quantity of high-protein feed fed has about doubled.

The trend toward higher output per animal has been a factor in heavier feeding of grains and other concentrates per animal unit. Dairy cows, for example, in 1959 were fed 60 percent more grain and other concentrates per head than 20 years ago. Milk production per cow has gone up about 40 percent. The rate of increase in output per animal has been less pronounced for most other types of livestock. Since 1940, there has been a 15 percent increase in livestock production (measured in production units) per grain-consuming animal unit. These comparisons indicate farmers are using relatively more feed grains and other concentrates to get this heavier output per animal and are depending less on roughages.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

OUTLOOK FOR FOOD IN 1961

Statement by Robert J. Lavell
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference,
Washington, D. C., 3:45 p.m., Tuesday, November 15, 1960.

Food supplies through 1961 will be a little larger than they were this year, with the increase just about matching the increase in population. Consumer demand for food is expected to remain strong since general economic activity and employment will likely be well maintained, with the flow of income to consumers continuing at a high level. Accordingly, overall consumption of food per capita will likely be at about the same rate as in 1960.

With food supplies and demand conditions little different from this year, retail food prices next year are expected to average close to those of 1960. Similarly, food marketing margins as well as prices received by farmers for food should be little different.

A summary review of prospects for major foods shows the variations behind this general picture.

Meat

Civilian meat consumption in 1961 is expected to increase about 4 pounds per person over this year's high rate. Most of the increase will be in beef, which should reach a record 89-90 pounds per person. Veal consumption per capita is expected to increase a little, while lamb and mutton will be somewhat lower than in 1960.

Cattle slaughter in 1961 is expected to be heavier throughout the year than in 1960, with the increase mostly in lower grade beef. Pork supplies will continue appreciably lower through mid-1961 than in the same period last year. If the 1961 spring pig crop is expanded as now expected, the second-half pork output should be somewhat larger than during the same period this year. For the year as a whole, pork production will average the same per person as last year.

Overall retail meat prices next year may be about the same as this year's. The price of beef should average a little lower, offsetting a slightly higher average for pork.

Poultry

In 1961 poultry meat probably will be somewhat more plentiful than in 1960. Average consumption per person is expected to be a little higher and average retail prices lower. Generally favorable 1960 prices to producers and the increase in large-scale production facilities will encourage the maintenance of high-level production even with uncertain price prospects.

Eggs

With the laying stock at the beginning of next year expected to be smaller than this year's, egg production in the first part of 1961 will be down from 1960. Though supplies of eggs will pick up later in the year, the average consumption rate for 1961 is likely to be even below the low rate for 1960.

Dairy Products

Production of milk in 1961 is likely to continue to increase. With beginning-year stocks of products close to those of this year, supplies of milk and milk products available for consumption in 1961 are expected to be larger than in 1960. They should be more than ample to meet consumer demand at current retail price levels.

Consumption of fluid milk products per person next year may be somewhat less than in 1960 despite a probable gain for fluid low-fat and nonfat milk products. The long-term downward trend in consumption of butter, evaporated milk and fluid cream probably will continue through 1961.

Fats and Oils

Supplies of food fats and oils in the next marketing year will be large, though somewhat down from last year's record. A drop in lard production and reduced carryover of soybeans will more than offset the small increase in prospect for cottonseed oil and butter.

Civilian use, per capita, of food fats in 1961 is expected to continue close to the 46 pound (fat content) rate of the three preceding years. The pattern of use will probably be similar to this year's, when increased use of margarine over last year's use was offset by smaller consumption of butter and lard.

Exports of food fats and oils in 1960-61 are expected to continue at last year's record high level. The strength of export demand will again be a major factor influencing the level of domestic prices.

Fruit

Total supplies of fresh and processed fruits probably will be a little smaller through mid-1961 than they were this year. The drop will be mostly in fresh deciduous fruits and a few processed items.

Supplies of fresh citrus fruits will be about the same as they were this year. Supplies of fresh deciduous fruits will be somewhat smaller, mostly because of the smaller crops of apples and pears. Imports of bananas are expected to continue high. Canned fruit will be plentiful through mid-1961, but down somewhat from the same period last year. Deciduous fruit juices, however, will likely be about as plentiful as they were last year. About as large a supply of frozen deciduous fruits and berries will be available in 1960-61, though supplies of frozen concentrated citrus juice probably will be smaller than a year earlier.

Supplies of dried fruits will be about the same, with moderately smaller production this year offset by a larger carryover. Very large supplies of tree nuts are in prospect for the current marketing year.

Vegetables

Not much information is currently available on production of vegetables in the first half of next year. Past experience, however, suggests that supplies of fresh market vegetables in the first half of 1961 are likely to be no larger than in the first half of 1960.

Supplies of fresh vegetables in the remaining weeks of fall are about the same or slightly larger than they were a year ago. Retail prices of fresh vegetables as a group during the next 4-6 weeks probably will average a little below the relatively high levels of last year, though prices of some items in short supply -- green peppers, tomatoes, sweet corn, eggplant -- will be higher than last year.

Supplies of frozen vegetables will be at least as large as last year, but there will be slightly less canned vegetables. Because of smaller supplies of some items and slightly higher processing and distributing costs, retail prices of processed vegetables into mid-1961 are expected to average a little above those of a year earlier. Civilian per capita consumption of frozen vegetables probably will average a little above that of last year, of canned vegetables about the same.

Potatoes

More white potatoes will be available through this winter than last, but materially fewer sweetpotatoes. Because of the supply situation, retail prices of round white potatoes may be a little lower, but russets may be about the same as last season. Higher prices than a year earlier are in prospect for sweetpotatoes.

Civilian per capita consumption of white potatoes and potato products combined, should be about the same as last year, or slightly higher. Consumption of sweetpotatoes is expected to be down quite a bit.

Cereal Food Products

Grain supplies will continue very large, considerably above expected domestic use and exports. Record supplies of wheat and corn will be available. The supplies of oats will be about the same as last year's, but the rice supply and the barley supply will both be down about 5 percent. Per capita civilian consumption of cereal food products is expected to be close to last year's rate.

Sugar

Production of beet sugar for 1960 promises to be record large. Record production is also expected from mainland sugar cane. World supplies are more than enough to meet U. S. import requirements, but some of it is located in distant areas.

As you can see from this summary, next year we will again be blessed with plenty of all foods at reasonable prices. More detail concerning the outlook for any commodity can be found in the Outlook issue of the National Food Situation, and in the appropriate commodity outlook situation statements.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR MEAT ANIMALS IN 1961

Talk by Earl.E. Miller
Agricultural Economics Division
At 38th Annual Agricultural Outlook Conference
Washington, D. C., 2:00 P.M., Tuesday, November 15, 1960

Livestock production and slaughter in 1961 will show modest gains over 1960. A sizable increase in cattle and calf slaughter seems assured although slaughter will probably not be large enough to halt the uptrend in numbers. Hog production is turning upward and the total number to be slaughtered next year will probably be as large or larger than this year. Sheep and lamb slaughter next year will likely be close to this year.

Total red meat production will set a new high next year. The outlook is for meat production to increase enough during 1961 to supply each consumer with about 4 pounds more meat than during 1960. The increase will be mostly in beef. Pork supplies will be less plentiful during the first half of next year than a year earlier. In the second half of 1961 pork output will push above a year earlier if the 1961 spring pig crop is expanded as now seems likely. Pork supplies per person for the year as a whole will likely be close to the 64.5 pounds in prospect for 1960. Veal supplies (which includes calf) per person will be up moderately but less lamb and mutton is likely. Hence, red meat consumption per person will likely total about 165 pounds next year, second only to 166.7 pounds consumed in 1956.

Barring unfavorable pasture feed conditions, cattle numbers are expected to continue upward next year. In the preceding cycle, numbers increased for 7 years, rising 26 percent during the upswing. Numbers have been increasing for 3 years in the current cycle and will have added about 12 percent by next January. (This number may change slightly by revisions based on the 1960 Census of Agriculture). The recent increase in cow and calf slaughter indicates the buildup is easing off.

Total cattle and calf slaughter next year will probably be about 10 percent larger than this year. It will include more fed cattle but most of the gain will be in non-fed cattle and calves. Cow slaughter is expected to pick up noticeably in 1961, both in absolute numbers and relative to inventories. The reduced culling rate in the past 3 years has probably resulted in a considerable number of aged cows being retained in the breeding herd. The number of heifers available for replacing these cows has expanded sharply. Moreover, declining calf prices have lowered the incentive for retaining aged cows.

Calf slaughter has set new lows relative to supplies during the current cycle, due largely to the greater increase in beef calves. A larger proportion of beef calves are slaughtered as cattle and a smaller part as calves. Calf slaughter usually shows a sharp jump in the third or fourth year of the cycle after significant inventory increases in older cattle. In view of the large number of young stock already added to inventories, it appears likely that slaughter next year will be up more than the expected increase in the calf crop. However, producers will still retain a considerable number of calves for further feeding or breeding and only a moderate gain in calf slaughter seems the most likely prospect for 1961.

Cattle prices rose rather steadily during 1957 and early 1958. Prices then held relatively steady for about a year before turning downward. The average price to farmers for beef cattle reached \$24.40 per 100 pounds in May 1959. This compares with \$21.80 in May this year and \$19.10 in October.

A severe cyclical break in cattle prices does not appear likely in 1961. However, under pressure of increased marketings, cattle and calf prices will continue to trend downward in 1961. For the year as a whole the decline may not average greatly different than the reduction during 1960. Lower grades of slaughter cattle, however, may show more price weakness than other classes, and downward pressure on all classes will likely be greater in the last half of the year than in the first half.

During the last 20 years cattle numbers have increased about as fast as population. Beef and veal production has trended sharply upward, because of increased output per animal on hand. Briefly, the increased production per animal has been due to raising more calves to mature animals and feeding to heavier weights before slaughtering. Lighter average slaughter weights next year may offset part of the increase in numbers slaughtered.

Hog slaughter for the remaining months this year will be well below a year earlier. Commercial slaughter the first 9 months was 2 percent larger than a year before, but slaughter for the year will total about 4 percent less than in 1959. Hog prices have been above a year earlier since June and for the year will probably average about a dollar per 100 pounds higher than the \$14.10 received by farmers last year.

Hog production is apparently turning upward again after a one-year decline, the quickest turnaround on record. In September producers in 10 of the Corn Belt States planned to increase late fall and early spring farrowings. The outlook for hogs is based on this increase in supply already underway and prospects for a modest increase in the entire 1961 spring pig crop.

Hog slaughter in the first half of 1961 will likely fall a little short of this year but the difference from year earlier levels may be small by midyear. Hog prices will probably decline less than usual this fall and prices at the beginning of 1961 will be considerably above early 1960 prices. This difference will narrow during 1961 and by midyear prices are expected to be close to a year earlier.

The supply of hogs during the last half of next year will come largely from the 1960 spring pig crop. The 10-State intentions in September were for a 4 percent increase in farrowings in the first half of the spring season (December-February). Feed supplies are large and the hog-corn price ratio favors an expansion. Hence, it appears likely that the entire 1961 spring crop will also be a little larger. A larger spring crop would mean that hog prices next summer and fall would average somewhat lower than this year but prices for next year as a whole will probably not average greatly different from this year.

Production of lamb and mutton has also gained more during the past 10 years than have numbers. The increase in productivity is due to higher lambing ratios, lower death losses, and heavier slaughter weights. The uptrend in lamb and mutton production has about matched population growth resulting in a relatively stable consumption rate per person.

Slaughter of sheep and lambs the first 9 months this year has been about 4 percent greater than a year earlier. If slaughter in the final quarter continues above last year as expected, slaughter for the year may be large enough to interrupt the 3-year uptrend in numbers. Weather conditions will continue to be an important factor in sheep production next year but the most likely prospect is for numbers to show little change during 1961. If slaughter does not change much, prices next year will likely be close to or only a little below this year.

Average retail meat prices have generally advanced this year due to gains in pork prices. In September this year, the BLS index of retail meat prices was 115.8 (1947-49 = 100), slightly below a year earlier but 5 percent below September 1958. For the year as a whole 1960 retail meat prices will average below 1959. Consumption is up, however, resulting in a retail value for meat nearly unchanged from 1958 and 1959 values. Since disposable personal incomes have risen, the percentage of the consumer's dollar spent for meat declined. The retail value of all meat was equivalent to 5.0 percent of disposable income in 1958, 4.8 percent in 1959 and this year about 4.6 percent.

Demand for meat is expected to continue strong next year. The increased quantities of meat produced next year will move into consumption at somewhat lower prices. As these factors may be nearly offsetting, the retail value of meat consumed per person next year probably will be close to this year. But it will likely represent a smaller percentage of incomes.

Livestock producers have a great potential for increasing output. They currently have the physical assets of large feed supplies, basic productive stock and other facilities for expanding production. They also have the knowhow. Relatively favorable prices--which will continue to be the governor as well as the generator for future production--are resulting in increases in the number of meat animals being produced. Ample meat supplies are desirable from a nutritional point of view and over the long-run are probably of mutual benefit to consumers and producers. However, in the shorter-run when supplies become excessively large, meat animal prices at the farm suffer sharp declines.

This appraisal points up the possible dangers in the longer-run outlook. Beef consumption is currently a near-record rate and will likely set new highs in the next few years. The effect of increased supplies on prices probably cannot be pinpointed too closely, but the price depressing force is certain. The relatively favorable outlook for hogs in 1961 also carries with it a word of warning. In recent years hog production has usually increased for 2 years before turning downward. Should favorable conditions lead to a much sharper increase in hog production for 1961 than now seems likely or a continued increase in 1962, pork supplies per person could again be pushed up to the 68-70 pound mark--a level that led to significantly lower hog prices in 1955 and 1959. The danger of overproduction is accentuated by a probable increase in beef and veal.

Hence, the Outlook for 1961 is for moderate changes in production and prices. But producers should be alert to the serious depressing effect that may be exerted on prices if production continues to outrun population growth.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR PEANUTS IN 1960-61

Statement presented by George W. Kromer
Agricultural Economics Division
at the 38th Annual Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 16, 1960

The total supply of farmers' stock peanuts during the 1960-61 marketing year that began August 1, 1960 is currently estimated at 2,125 million pounds, 2 percent more than last year. A decrease in starting stocks from a year earlier was more than offset by the increase in the 1960 peanut crop. The 1960 peanut crop is greatly in excess of probable food and farm uses, and CCC will acquire the surplus under the support program.

The 1960 peanut crop was estimated as of October 1, 1960 at 1,732 million pounds compared with 1,592 million produced in 1959. The increase is the result of a record yield per acre--1,239 pounds compared with the previous record of 1,204 pounds for 1958--as the acreage to be picked and threshed is down 4 percent. Except for the Virginia-Carolina area, record and near-record yields are in prospect for all important peanut producing States in the Southeastern and Southwestern areas. Yields in the Virginia-Carolina area are well above average but below previous record levels.

The outlook is for farm prices of peanuts to average slightly higher during the 1960-61 season than the 9.6 cents per pound received last year, reflecting the 4 percent increase in the support. Production is large enough to keep prices close to the CCC loan value, as in recent years. The loan value is the support price less charges for storage, inspection, and grading, and for expenses of the cooperatives that market the peanuts. It averages about half a cent less than support.

Prices to farmers for 1960 crop Spanish and Runner peanuts so far this season are averaging at about the CCC loan value, about 3-4 percent more than last year. Virginia-Carolina peanuts have just started to move in volume and prices are also running near the higher loan rate for this year.

The 1960 crop peanuts will be supported at a national average level of 10.0 cents per pound (\$201.24 per ton), compared with 9.7 cents per pound (\$193.50 per ton) for the previous crop. The 1960 support price is 78 percent of parity compared with 75 percent a year earlier. Support by type of peanuts follows: Virginia, \$213.93 per ton; Runner, \$188.08; Southeast Spanish, \$204.36; Southwest Spanish, \$197.61; and Valencia type suitable for cleaning and roasting, \$210.95.

Loans on 1960 crop peanuts are available to individual producers and grower associations through January 31, 1961; they will mature May 31, 1961, or earlier on demand by CCC.

Civilian consumption of peanuts in the postwar era has been relatively stable, averaging about 6.5 pounds per person, farmers' stock basis (4.5 pounds shelled), about the same as for 1937-41. Supplies of peanuts in most years were plentiful and prices averaged near support. Of the normal consumption of 6.5 pounds, about 5.5 pounds are usually consumed in the form of peanut butter, salted peanuts and in candy. The other pound is almost equally divided between roasted peanuts (the ballpark type) and those consumed as food on farms.

The 6.5 pound per person consumption rate is expected to prevail during the 1960-61 marketing year. With the population gain in prospect, this means that total consumption of peanuts will rise slightly.

If the edible consumption of peanuts should rise slightly in 1960-61, and the commercial crush and farm uses remain about the same as in recent years, around 315 million pounds or 18 percent of the 1960 crop will be available for diversion by CCC or addition to stocks. The quantity crushed or exported will depend upon the Corporation's sales operations.

Prospects for 1961-62

If growing conditions are average, the 1961 peanut crop probably will result in a moderate surplus above food and farm uses.

A marketing quota requirement of 970,000 tons (1,940 million pounds) of 1961 crop peanuts and a national allotment of 1,610,000 acres for picking and threshing was announced by the USDA on October 14, 1960. This is the minimum marketing quota and acreage allotment permitted under existing legislation. If the minimum-allotment provision of the law were not in effect, the national marketing quota for 1961 would be 720,000 tons, and the resulting national acreage allotment would be 1,195,000 acres. Growers approved quotas for the 1960, 1961, and 1962 crops of peanuts in a referendum held December 15, 1959.

Peanut production in 1961 probably will be large enough to keep prices to growers around the CCC support. The actual level of support under the marketing quota has not been announced. Because of the uptrend in yields, production of peanuts from the minimum allotment of 1.6 million acres provides a surplus of peanuts above edible requirements even though population is increasing.

Out
UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

OUTLOOK FOR RICE IN 1961

Talk by Robert E. Post
Agricultural Economics Division
At the 38th Annual Agricultural Outlook Conference
Washington, D. C., 2:40 P.M., Wednesday, November 16, 1960

The Rice Situation in 1960-61

The rice carryover on August 1, 1960 was only about a third of the record of just 4 years ago on August 1, 1956. The carryover this year, in terms of rough rice, was 12.1 million cwt., compared with 34.6 million cwt. on August 1, 1956. During the past year, stocks were reduced 3.5 million cwt., or 22 percent. The reduction in carryover stocks during the past four years reflects acreage controls and the results of the Acreage Reserve Program, as well as the high level of exports.

The 1960 crop as of October 1 was estimated at 53.4 million cwt., compared with 53.1 million a year earlier and 51.4 million, the 1954-58 average. The acreage, limited by legislation, was about unchanged from a year earlier. The yield per harvested acre of 33.45 cwt. is only slightly below last year's record yield but a fourth above average. With a reduced carryover and negligible imports, the supply for the 1960-61 marketing year totals 65.9 million cwt. This is 5 percent below the 69.5 million cwt. a year ago and 8 percent below the 1954-58 average.

Domestic disappearance is estimated at 28.1 million cwt. Food use for continental U. S., Territories and the military forces is estimated at 20.5 million cwt., slightly up from the 20.4 million of 1959-60; brewers' use at 5.0 million, about unchanged from a year earlier; feed use of possibly 0.7 million and seed, 2.1 million. If we are to maintain our high level of exports, it will be necessary to develop markets for quality rice to replace the Cuban market. Moreover, since harvests in the Far East are not until January, it is impossible to project exports for 1960-61 very accurately. However, exports may well be between 28 and 29 million cwt., in which case our carryover August 1, 1961 would total close to 9 million cwt., compared with 12.1 million on August 1, 1960.

Rice Production in the United States

Rice yields per harvested acre increased each year from 1945 to 1959, except for 1951. The increase was gradual from 1945 to 1954 and then in 1955 it was sharp. In 1959, the yields reached a record and almost half again as much as the 1945-54 average. In 1960, yields were 33.45 cwt., almost up to the record of 33.49 in 1959. Because of the increase in the carryover following the record 1954 crop and small exports in that year, it became necessary to impose acreage allotments and proclaim marketing quotas for the 1955 crop. Although yields increased each year, except for 1958, from 1955-59, the reduced acreage has held production well below the 1954 level. Lower production was a major factor in reducing the size of the carryover but the reduction has not been enough to permit the discontinuance of marketing quotas.

Rice, in terms of rough: Supply and distribution, United States,
1956-59 and 1960-61 projected 1/

Items	Year beginning August 1					
	1956	1957	1958	1959	1960	1961
	Mil.	Mil.	Mil.	Mil.	Mil.	Mil.
	cwt.	cwt.	cwt.	cwt.	cwt.	cwt.
<u>Supply</u>						
Carryover, August 1	34.6	20.1	18.2	15.6	12.1	9.0
Farm production 5/	49.5	43.0	44.4	53.1	53.4	52.3
Imports 6/	.4	.2	.2	.8	.4	.2
Total 7/	84.6	62.8	62.7	69.5	65.9	61.5
<u>Domestic Disappearance</u>						
Food 8/	19.2	19.0	20.1	20.4	20.5	20.6
Industry 9/	5.1	4.8	4.7	5.0	5.0	5.2
Feed and Seed	2.7	2.5	2.6	2.8	2.6	2.6
Total	27.0	26.3	27.4	28.2	28.1	28.4
<u>Exports</u>						
Total disappearance	37.5	18.3	19.7	29.2	28.8	
<u>Ending stocks</u>						
	64.5	44.6	47.1	57.4	56.9	
	20.1	18.2	15.6	12.1	9.0	

1/ Milled rice converted to rough basis at annual extraction rate.

2/ Preliminary.

3/ Tentative.

4/ Projected.

5/ Includes estimates of production in minor States.

6/ Consist mostly of broken rice.

7/ Adjusted to equal total distribution.

8/ Includes shipments to territories and military food use at home and abroad.

9/ Primarily for beer production.

Legislation

Current legislation provides that if growers have not disapproved marketing quotas the support price for rice is determined at the discretion of the Secretary after consideration of the eight factors specified under section 401 (b) of the Agricultural Act of 1949, as amended. However, the support level cannot be in excess of 90 percent of parity, nor less than 75 percent of parity for the 1959 and 1960 crops, 70 percent of parity for the 1961 crop, and 65 percent of parity for the 1962 and subsequent crops. The support price for 1960 was set at 75 percent of parity (\$4.42 per cwt.).

The 1960 rice acreage allotment of 1,653 thousand acres is the minimum acreage that can be proclaimed under current legislation. Without this provision, the 1960 computed allotment would have been 1,381 thousand acres. Beginning with the 1961 crop, acreage allotments and marketing quotas are required to be proclaimed for the next succeeding year whenever the total supply exceeds the normal supply (P.L. 86-408). For 1960 and earlier years such proclamation was required only when the total supply was more than 10 percent in excess of normal. The national rice acreage allotment is apportioned among producers on the basis of producer's history or farm history. Farm history is used only when recommended by State Committees and approved by the Secretary. This is the only instance in which current legislation provides for this type of personal or producer history allotment.

The Rice Outlook for 1961-62

If about the same acreage of rice is harvested in 1961 as the 1,596,000 acres in 1960 and if yields equal the 32.76 cwt. average of the past 3 years, a crop of about 52.3 million cwt. would be produced. This compares with 53.4 million in 1960 and the 1954-58 average of 51.4 million cwt. Domestic disappearance is estimated at 28.3 million cwt., which is about the same as the 28.1 million estimated for 1960-61. Exports may be projected at about 25 million cwt., but actual exports will depend to a great extent on the size of the crops in importing and other exporting countries. Exports in 1959-60 totaled 29.2 million cwt. and 21.7 million for the 1954-58 average. On this basis, the carryover of rice would be reduced again on August 1, 1962.

Announcements relating to acreage allotments, marketing quotas and the price support for the 1961 rice crop are expected to be made within the next few days.

Rice Prices and Support Program

Rice prices received by farmers for rice, including those on rice delivered to CCC under the price support program, have averaged above support levels in all but two years, 1951-52 and 1954-55. In 1959-60, they averaged 22 cents above the national support of \$4.38 per cwt. On 1960-crop rice, they may again average well above the support rate announced at \$4.42 per cwt.

Farmers put 23 percent of their 1959-crop rice under price support, compared with 26 percent of their 1958 crop. Of the 12.3 million cwt. put under price support from the 1959 crop, farmers delivered 7.0 million cwt. to the CCC. The year before, farmers delivered 6.6 million cwt. out of 11.6 million put under support. Bluebonnet and Nato in the South and Calrose in California were the principal varieties delivered to CCC of the 1959 crop.

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The next Rice Situation, which is published once a year,
is scheduled for release in January 1961

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

OUTLOOK FOR TOBACCO IN 1961

Talk by Arthur G. Conover
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 11:00 A. M., Thursday, November 17, 1960

Consumer demand for cigarettes, cigars and cigarillos is expected to continue to increase in 1961. As in several recent years, the quantity of leaf used in the year ahead may not increase as much percentage-wise as the unit output of these products. In the past 5 years the development and use of processed tobacco sheet and the trend towards filter tip cigarettes, smaller-sized cigars, and cigarillos have reduced leaf requirements per unit of output. The 1961 consumption of smoking tobacco and snuff is expected to show no marked change from this year but consumption of chewing tobacco probably will continue its long term down-trend. Exports of leaf tobacco in the 1960-61 marketing year are expected to be moderately larger than the 6 year low of 1959-60.

Carryovers of most domestic tobaccos except some fire-cured and cigar types are below a year earlier. The 1960 production of all tobacco types combined is about 8 percent above 1959; the substantial increase in flue-cured due to a record average yield more than offsets the decreases in the crops of burley and several other types. The 1960-61 total supply of flue-cured is a little above 1959-60 but supplies of burley and several other kinds are lower than a year ago. A noteworthy exception is the shade-grown cigar wrapper for which total supply is a record high.

The 1961 marketing quota and acreage allotment for flue-cured will be announced by December 1 but the Secretary of Agriculture has until February 1 to announce the 1961 marketing quotas and allotments for burley and other kinds of tobacco. (Under the law the shade-grown cigar wrapper types are not subject to marketing quotas; also since quotas were rejected by growers of cigar filler type 41, none will be in effect on that type.) After the quota announcement, growers of fire-cured types 21-23 and dark air-cured types 35-36 will vote in referendums on whether they favor quotas on their 1961, 1962, and 1963 crops. Approval by two-thirds of the growers voting is required if marketing quotas are to be continued in effect on these kinds of tobacco. Growers of flue-cured, burley, and other eligible kinds voted either in the past year or the year before in favor of marketing quotas on the next three crops to be produced. Thus marketing quotas will be definitely in effect for them in 1961.

Government price supports are mandatory for the kinds of tobacco produced under marketing quotas. However, they are no longer based on 90 percent of parity as they were for most kinds prior to 1960. The legislation enacted in February of this year set the 1960 price supports for tobacco at the same levels as in 1959. This legislation also provides that starting with the 1961 crops, the support prices will be adjusted from their 1959 levels in accordance with the change between the 1959 parity index and the average of the parity indexes for the 3 calendar years just prior to the year for which the support level is being determined. The parity index is the index of prices paid by farmers, including interest, taxes and wage rates. For 1961, price support will

reflect the change between the 1959 parity index and the average of the parity indexes for 1958, 1959 and 1960. Available data through October 1960 indicate that the 1961 tobacco support levels are likely to be virtually the same as in 1960 and 1959.

Position of Different Kinds of Tobacco

Flue-cured: The 1960-61 total supply of this leading cigarette and export tobacco at 3.3 billion pounds is about $1\frac{1}{2}$ percent above 1959-60 but 9 percent less than the peak of 4 years ago. This year's average yield per acre is a record high and the increase in the crop over last year's more than offset the drop in carryover. Domestic use of flue-cured in 1959-60 was about 4 percent above each of the two preceding years when it stayed level; a further modest increase in domestic use is expected during 1960-61. Exports of flue-cured (accounting for over four-fifths of total U. S. tobacco exports) were down $5\frac{1}{2}$ percent in 1959-60 from 1958-59 and the lowest in 7 years. In 1960-61 exports are expected to turn upward and be about 5 percent above last year's 7-year low.

All except a small fraction of the 1960 flue-cured crop has been marketed. The season average price is estimated at near 60 cents per pound--about $1\frac{3}{4}$ cents above each of the past two seasons and the highest on record. This year's crop had a larger proportion of high quality tobacco than last year's. The support level was $55\frac{1}{2}$ cents. About 4 percent of marketings have been placed under Government loan compared with 5 percent in 1959 and 13 percent in 1958. The placements under loan in the 1960 season were far smaller than in most years since 1946 when the present loan program was started. In the past year Government loan stocks of flue-cured have declined significantly but are still above 500 million pounds (farm-sales weight equivalent).

Burley: The 1960-61 total supply of burley, the second ranking cigarette tobacco, at 1.7 billion pounds is about $2\frac{1}{2}$ percent lower than for 1959-60 and 9 percent below the high level of 6 years ago. The 1960 crop is estimated at about 3 percent below 1959 and carryover is down 2 percent from a year ago. Domestic use of burley during 1959-60 rose 3 percent above 1958-59, the first substantial upturn in 8 years. Exports (about 7 percent of total disappearance) topped those of a year earlier and were the largest in 10 years. Burley tobacco auctions generally start in late November. The level of price support is 57.2 cents per pound the same as last season when growers received an average of 60.4 cents per pound for the crop. Placements of burley under Government loan have been relatively small in each of the last 4 years. In the past year Government loan stocks of burley were sharply reduced as substantial quantities under loan largely from the 1954 and 1955 crops were sold and moved into private trade channels.

Maryland: This year's crop of Maryland tobacco plus the carryover will provide a total supply for 1960-61 about 2 percent lower than for 1959-60 and the lowest in 10 years. The crop is approximately the same size as last year but carryover has declined considerably in the last 2 years. Auctioning of the 1960 crop will take place next spring and summer. The level of

price support for the 1960 crop is 50.8 cents per pound. The auction market price average for the 1959 crop marketed last spring and summer was close to 61 cents per pound--second highest on record. In 1959-60, domestic use of Maryland--mostly in cigarettes--was significantly below a year earlier; also exports were down from 1958-59, though still the fourth largest of the postwar period.

Fire-cured: The 1960-61 total supply of fire-cured tobacco is about 1 percent below 1959-60 and lowest on record. This year's production is about 7 percent smaller but the carryover is 1 percent larger than last year. The principal domestic outlet for these types is snuff. Domestic use of fire-cured in 1959-60 declined sharply and exports were fairly close to the post-war low of a year earlier. Auctions for Virginia fire-cured usually open by early December, and for Kentucky-Tennessee fire-cured, by early January. The 1960 crop support level is 38.8 cents per pound, the same as in each of the past 3 seasons. Government loan holdings of these types are still substantial in comparison with annual disappearance.

Dark Air-cured and Sun-cured: The 1960-61 total supply of dark air- and sun-cured tobacco is about 3 percent below 1959-60 and a near-record low. This year's production is about 2 percent smaller, and the carryover is $3\frac{1}{2}$ percent smaller than last year. The principal domestic outlet for these types is chewing tobacco. Both domestic use and exports of these types declined in 1959-60 so that annual disappearance was at a new low. Auctions for these types begin shortly; the level of price support is $34\frac{1}{2}$ cents per pound, the same as in each of the past 3 seasons. Government loan stocks of the dark air-cured types are substantial compared with annual disappearance.

Cigar Filler: The 1960-61 total supply of continental cigar filler is a little larger than for 1959-60. In the principal producing area, Pennsylvania, the crop is estimated to be 5 percent less than in 1959 when it was the largest in 8 years. Carryover of continental filler is nearly 5 percent above a year ago and carryover of Puerto Rican tobacco is 6 percent above a year ago. The disappearance of the combined filler types in 1959-60 was lower than in 1958-59, with a fairly sharp drop indicated for Puerto Rican tobacco. Exports of these types are relatively small. The use of imported cigar filler has increased in the past 2 years.

Connecticut Cigar Binder: The 1960-61 total supply of these types is 3 percent less than 1959-60 and a new low. The production about equaled last's but carryover declined 4 percent. Domestic use in 1959-60 dropped to a new record low and was only about a third as much as the 1950-55 average. The extensive use of sheet binder on cigars has greatly reduced requirements for these types. There was a small increase in exports from the low level of a year earlier. The 1960 price support level for these types is 39.6 cents per pound. Government loan stocks of these types are substantial in comparison with current annual usings.

Wisconsin Cigar Binder: The 1960-61 total supply of these types is about 6 percent larger than for 1959-60. The production of Northern Wisconsin type 55 is considerably larger than last year's small crop and the largest in 6 years. Carryover of Southern Wisconsin type 54 is larger than a year ago

but carryover of type 55 is down a little. Total disappearance (domestic use plus exports) of the combined Wisconsin types declined in 1959-60 to a near-record low. In addition to cigars, scrap chewing tobacco is a sizable outlet for these types.

Shade-grown Cigar Wrapper: The 1960-61 total supply of Connecticut Valley and Georgia-Florida cigar wrapper is 9 percent above 1959-60 and a record high. The Georgia-Florida crop exceeded any previous year and the Connecticut Valley crop exceeded every year except 1957. Carryover rose more than a tenth from a year earlier to a new high. This year, market testing of cigars wrapped with sheet instead of natural leaf has been under way. If such cigars gain wide consumer acceptance, and their manufacture results in economies similar to those achieved in cigar binders, the shade-grown cigar wrapper types will face substantial adjustments.

Tobacco Products

Cigarettes: The 1960 output of cigarettes is estimated at a record 512 billion-- $4\frac{1}{2}$ percent more than in 1959. A further increase is probable in 1961. This year's cigarette consumption by U. S. smokers estimated at 489 billion accounts for nearly 96 percent of the total output. The number smoking cigarettes daily is approximately 60 million--36 million men and 24 million women. During the next 5 years the population 15 years and over will be increasing 2 million a year instead of about $1\frac{1}{2}$ million as in the last few years. More than half the prospective increase by 1965 of those 15 years and older will be in the 15-24 age bracket, a group from which many of the new smokers will come. By 1965 there may be 67 million cigarette smokers and at current rates of consumption, they would smoke 545 billion cigarettes. Such a projection does not explicitly consider possible effects of changes in consumer incomes, cigarette prices and other factors that may bear on cigarette consumption.

The use of sheet tobacco has spread to a large number of brands. It is estimated that utilization of sheet tobacco is at least 75 million pounds or approximately 8 percent of the finished weight of tobacco in cigarettes.

Cigars and Cigarillos: The 1960 consumption of cigars and cigarillos by U. S. smokers may approach 7.2 billion-- $2\frac{1}{2}$ percent more than in 1959 and the largest number since 1923. The principal increases in the last 2 years have come in the 6.1 to 8.0 cent price bracket and in those, 6 cents or less. Leading cigar firms have introduced lines of smaller-size cigars within their established brands. These smaller size cigars sell at 8 cents or less and cigarillos usually sell at 4 or 5 cents apiece. The total units ~~sell~~^{ing} for 8 cents or less comprise 61 percent of the market compared with 51 percent 5 years ago.

Smoking Tobacco: The 1960 output of smoking tobacco is estimated at 73 million pounds--practically the same as in 1959 but fourth lowest on record. Indications are that less tobacco was consumed in "roll-your-own" cigarettes but this was offset by a small increase in pipe smoking. Little change in smoking tobacco output is expected in 1961. Consumption of imported manufactured tobacco has risen sharply in the last 2 or 3 years and may approach 900,000 pounds this year.

Cheewing Tobacco and Snuff: The 1960 output of chewing tobacco and snuff are estimated at about 65 million and $35\frac{1}{2}$ million pounds, respectively. Cheewing Tobacco is down about 4 percent from 1959 and a further decline is likely in 1961. Snuff production is about $3\frac{1}{2}$ percent above 1959 in contrast with a declining trend from 1955 to 1959. Little change is expected in the 1961 output of snuff compared with that of this year.

EXPORTS

Exports of unmanufactured tobacco in the 1959-60 marketing year totaled about 510 million pounds (farm-sales weight)--around 25 million pounds less than in 1958-59. Tobacco exports in 1960-61 seem likely to increase about 5 percent over the 1959-60 level. Favoring some gain are the larger 1960 crop of flue-cured (the predominant export tobacco), the relatively stable prices of most grades of flue-cured, increases in cigarette consumption in many foreign countries, the favorable gold and dollar position of most West European countries and the comparatively high level of economic activity abroad. Offsetting influences are the increased competition from expanded foreign production and the trade barriers of various forms of many importing countries. Of continuing concern to foreign buyers and domestic companies alike is the use by growers of sucker control chemicals (MH-30), which company spokesmen contend affects the physical and chemical properties of leaf.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

THE OUTLOOK FOR VEGETABLES AND POTATOES IN 1961

Talk by Will M. Simmons
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington D. C., 1:30 P.M., Wednesday, November 16, 1960

COMMERCIAL VEGETABLES

Postwar Trends

Before moving into a discussion of the outlook for 1961, lets take a brief look at what has happened to vegetable consumption in the period since World War II. Civilian per capita consumption of commercially produced vegetables, on a fresh equivalent basis, has shown no change. Throughout the period, annual consumption, excluding melons, potatoes, sweetpotatoes, dry beans and dry peas, remained remarkably stable at about 200 pounds per person.

There were, however, significant changes in consumption of individual vegetables, and in the forms in which vegetables were used. Use per person, in all forms combined, increased materially for lima beans, broccoli, sweet corn, cucumbers, and tomatoes and tomato products. The higher overall consumption rates were due mainly to substantial increases in the use of canned, and large gains in the use of frozen items. Among major items, consumption in the fresh form was maintained or increased only in the case of sweet corn and two salad vegetables--cucumbers and lettuce. Rapid increases in use of processed forms enabled asparagus, green peas, and snap beans to hold their own or gain slightly. Overall consumption rates declined for cabbage, spinach and a number of less important items.

As larger percentages of vegetable production have gone into processing--now about 50 percent--there has been some slowdown in the rate of shift toward processed items. Nevertheless, with advancing technology, increasing consumer incomes, and the homemaker's desire for prepared or easy-to-prepare foods, use of processed vegetables during the next few years is likely to continue to gain relative to total use.

Outlook for 1961

Supply and Demand Prospects - Supplies of frozen vegetables available during the first half of 1961 probably will be the same to slightly larger than those of a year earlier, but canned supplies are likely to be a little smaller. Slightly less dry beans than a year earlier, and far less dry peas and sweetpotatoes will be available. Indications are that the supply of potatoes through the winter will be slightly larger than a year ago, but the important late spring crop may be somewhat smaller.

General economic activity in the third quarter of this year was down slightly from the record second quarter, but disposable personal income, though leveling out continued about 5 percent above that of a year earlier. Prospective trends in economic activity indicate that consumer income will be well maintained, and that domestic demand for vegetables in 1961 is likely to continue strong. Because of larger Canadian supplies, export demand for potatoes into mid-1961 is expected to be down materially from 1960. Exports of dry beans and dry peas are expected to be smaller than last season. Total exports of vegetables, small relative to U. S. production, probably will not differ much from those of last season. As usual, the dominant influences on farm prices and income, and to a lesser extent on consumer prices, will be the supply and quality of vegetables available and the pattern of marketing.

Machinery, equipment, containers and facilities necessary to produce, package and distribute vegetables are expected to be in ample supply during the first half of 1961. Most fertilizer materials, insecticides, fungicides, and weed killers are expected to continue in adequate supply.

Commercial Fresh Vegetables - Total fall production of vegetables is moderately larger this year than last. However, most of the increase over 1959 was in early fall crops, most of which have been harvested. Thus, total supplies available in the next 4 to 6 weeks probably are close to those of a year ago. More cabbage, cauliflower and broccoli are available. But prospective supplies of sweet corn, green peppers, eggplant and tomatoes, all hard hit by hurricane Donna, are down.

It is of course too early to have much information on production in the first half of next year. However, past experience suggests that supplies of fresh market vegetables in the first half of 1961 are likely to be no larger than in the first half of 1960. Mainly because of larger acreages and higher yields of cabbage, carrots and lettuce, total winter tonnage in 1960 was about a tenth above the near average production of 1959. Acreage intentions reports indicate another large crop of winter cabbage, but production of carrots may be smaller. Barring a repeat of 1960 severe weather damage to tender winter vegetables in Florida, production of snap beans, sweet corn, eggplant, and tomatoes is likely to be larger than the light volume of last winter. Total production in the spring probably will not be much different than last spring. Prices of individual items both at the farm and retail levels, compared with the first half of 1960, will vary depending on quality and on volume and pattern of marketing.

Processed Vegetables - The same to slightly more frozen vegetables will be available into mid-1961 than a year earlier, but overall supplies of canned vegetables probably are a little smaller. Carryover stocks of canned and frozen vegetables at the beginning of the season, in mid-1960, were materially smaller than a year ago. But indications are that both canned and frozen packs were up at least moderately from 1959. More active early season demand and heavier shipments than last season probably leaves slightly less volume of canned vegetables than a year ago, though remaining supplies still are above average. Among major canned items supplies of asparagus were somewhat larger this season than last, and indications are that supplies of snap beans, sauerkraut, and lima beans are at least moderately larger. Combined supplies of tomatoes, tomato juice and tomato

products for the season may be close to those of last season, but some items probably are smaller. Also, supplies of green peas and sweet corn are materially smaller than a year ago.

With adequate, though not burdensome, overall supplies of processed vegetables available, consumption of canned vegetables per person is expected to continue at a high level, and frozen may again set a record. Overall stocks of canned vegetables are likely to be smaller at the end than at the beginning of the season. Because of smaller supplies of some items, higher prices for some processing materials, and increasing distribution costs, prices both at the packer and retail levels are expected to average moderately higher than last season. Supplies of processed vegetables generally are in closer balance with anticipated demand than in several years. To avoid a buildup of supplies to burdensome levels, it now appears that acreage for processing in 1961 should be the same or only moderately larger than in 1960. The Department's detailed acreage-marketing guide for vegetables for processing will be issued early in 1961.

Dry Beans and Peas - Supplies of dry edible beans are slightly smaller this season than last. Indications are that supplies of colored classes are again relatively tight. Total supplies of white classes, though below last year, are large relative to other recent years, with supplies of pea beans very heavy. Total domestic use in the current season is likely to equal or slightly exceed the 14.9 million bags used in the 1959-60 season. While this would leave less beans available for export than last season, foreign countries may not need as many U.S. beans. Because of the political situation, exports to Cuba, most important foreign market for our colored beans, are likely to be much smaller than last season. However, total quantities of colored beans available for export again will be limited. Fewer great northerns are available than a year ago, but probably more than enough pea beans. Prices of colored classes again may be relatively high, though perhaps below the high levels of last season. Prices of most white beans may average close to those of a year earlier, and above support levels. Because of the heavy supply, however, substantial quantities of pea beans are likely to be placed under CCC loan, and prices of this class probably will average close to support levels.

Supplies of dry peas are much smaller than last season and substantially below the 10-year average. Domestic use in the current season may be the same or larger than that of last season. While foreign demand probably will be down somewhat from the high level of the 1959-60 season, only about half as many peas will be available for export as in the past season. Thus, foreign demand again will be an important market factor. Dry pea markets are likely to advance into late spring, with prices to growers for Alaskas and other smooth green types averaging materially above those of last season. With prospects of substantially smaller stocks at the end of the current season and continued strong export demand, a moderate increase in dry pea acreage in 1961 seems justified.

POTATOES AND SWEETPOTATOES

Lets review briefly the highlights of the potato situation during the past few months. Supplies of both old and new crop potatoes last winter were materially smaller than the heavy supplies of a year earlier. Demand was good and movement to food processing outlets was significantly larger than a year earlier. Also, adverse weather delayed planting and development of the spring crop in the Southeast, extending the season of heavy

demand for storage potatoes. Prices to growers averaged about double the low levels of a year earlier.

The earlier cleanup of storage potatoes helped to maintain relatively high prices to growers through early spring. Marketings from the big late spring crop, up a fifth from the previous year, started to push prices downward and they continued to decline seasonally as movement from the summer and then the fall crop increased. Except for a few weeks in late spring, however, prices averaged significantly above those of last year.

Now for the outlook in the months ahead. Although prices to growers in the early part of the season averaged higher than a year ago, the outlook for some areas, during the rest of the season is not as favorable as last season. Combined acreage of late summer and fall potatoes was 3 percent larger than in 1959. Less favorable weather and moderately lower yields in the West were about offset by higher yields in the East and Midwest. Indicated late summer and fall production was slightly larger than last year, with all of the increase in the fall States. Intentions reports indicate that growers in California plan the same acreage of potatoes for winter harvest as a year ago, but Florida growers plan a 4 percent cut. However, production in Florida is likely to be larger than last winter when adverse weather resulted in very low yields.

The geographic distribution of the fall crop is somewhat different than a year ago. The 9 Western States with a slightly smaller production than last year have 38 percent of the fall volume compared with 40 percent last year. The 9 Central States, with 8 percent more production, have 26 percent of the total compared with 25 percent a year ago. The 8 Eastern States, where production is up 6 percent, has 36 percent of the fall total compared with 35 percent in 1959. Federal marketing agreements and orders, similar to those of the past several seasons, are in effect in areas which produce about three-fourths of the total fall crop. The orders restrict marketings of tablestock potatoes to the more desirable qualities and preferred sizes. A few additional areas operate under State marketing agreements and orders. These programs, and strong processor demand are expected to give potato markets considerable support. Also, in the western States production is down slightly from last year and quality of much of the crop is reported to be only fair. Prices in this area, may average close to those of a year earlier. But moderately larger supplies in eastern and central States are likely to mean somewhat lower prices in these areas, particularly for round white types. To avoid the risk of overproduction, farmers should plant moderately less acreage of late spring potatoes than last season. The acreage-marketing guides for 1961 summer and fall potatoes will be released in early 1961.

Supplies of sweetpotatoes are about a fifth smaller than both a year ago and the 1949-58 average. Production was down from 1959 in all areas except the Central Atlantic States. Production in Louisiana, leading State in volume, is down a third. Very unfavorable early-season weather in that State resulted in sharp cuts in both acreage and yield. Heavy harvest-time marketings from the Maryland-Virginia Eastern Shore pushed early-season prices to growers in that area below those of a year earlier. But prices in Louisiana and most other areas averaged materially above those in the early part of last season. Prices are expected to advance seasonally into the spring, with both farm and retail prices in most areas averaging substantially above those of last season. Barring unfavorable weather at planting time, some increase in sweetpotato acreage is likely in 1961.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agriculture Marketing Service

OUTLOOK FOR WHEAT IN 1961

Talk by Robert E. Post
Agricultural Economics Division

At the 38th Annual Agricultural Outlook Conference
Washington, D. C., 10:50 a.m.; Thursday, November 17, 1960

The wheat outlook for 1961-62 was discussed in the August issue of the Wheat Situation, which was issued prior to the seeding of the 1961 winter wheat crop. My remarks today will largely review the August statement. I will elaborate on some of the more important points, and cover any revisions since August.

The Wheat Situation for 1960-61

The total U. S. wheat supply for the marketing year which began July 1, 1960, estimated at 2,690 million bushels, is 11 percent above the previous record a year ago. This is practically unchanged from the August report. The gain over last year results primarily from a crop that is 240 million bushels larger; it is indicated at 1,368 million bushels compared with 1,128 million in 1959. The July 1, 1960 carryover of 1,315 million bushels was only 20 million larger than on July 1 last year. The supply also includes an allowance for imports of about 7 million bushels, mostly of feeding quality wheat and wheat for seed. The table on page 4 shows the items which make up the 1960-61 supply compared with earlier years. Distribution items are also shown.

Yield per harvested acre in 1960 of 25.8 bushels is second to the record of 27.4 bushels in 1958 and compares with the 1949-58 average of 19.0 bushels. Farmers harvested an indicated 53.0 million acres in 1960, about the same as a year earlier but 10 percent below the 58.7 million-acre average. Production of 1,368 million bushels was about 100 million below the 1958 record. A crop of this size is 240 million bushels above 1959 and 276 million above average.

Exports in 1960-61 are now estimated at 550 million bushels, compared with the previous estimate of 525 million and the 512 million exported in 1959-60. With domestic disappearance expected to total about 610 million bushels, slightly higher than in 1959-60, the indicated carryover on July 1, 1961 of about 1,530 million bushels would be an increase of over 200 million bushels. This prospective carryover in 1961 would be 6 times the 256 million bushels in 1952, at a time when wartime demands had drawn wheat stocks down to low levels.

Exports of 550 million bushels in 1960-61 would equal the all-time record reached in 1956-57. The greatest increase over last year will be in sales to the traditional dollar markets of Western Europe. Exports under Government programs are also expected to be somewhat larger, but the increase will likely be small.

Domestic prices are above world prices as a result of our price-support programs. Because our prices are high relative to world prices all United States wheat exports require export payments. In the case of wheat grain these export payments are paid in grain; flour payments are still in cash. Shipments under export programs are in addition to these payments. The special Government programs, including sales for foreign currencies, barter and various donation programs, have materially increased the size of our exports. Of the total exports in 1959-60, 73 percent moved under these special programs; this was an increase over the 68 percent in the previous year and the 61 percent, the 5-year average ending with 1957-58.

Italy and Spain, wheat exporters in recent years, have to import wheat this season and the U. S. will likely supply a considerable proportion of these requirements. Drought conditions continued in the Near East during the past season. The result will be an increase in wheat import requirements in that area. India and Pakistan are expected to need larger quantities of wheat and the U. S. will continue to supply the bulk of these requirements under Public Law 480 programs.

Wheat exports from the United States to Western Europe and Asia are also expected to be increased substantially in 1960-61, and a small increase to Africa is indicated. The import requirements of South America are expected to remain at about the same level as last year. Higher U.S. wheat exports are indicated also because of increased world demand and lower availabilities in several minor exporting countries.

Analysis of Wheat by Classes

Analysis of supply and distribution by classes ^{1/} shows a further substantial increase in the prospective carryover of hard red winter wheat, which would constitute about 80 percent of the total, next July 1, a small increase in hard red spring and little change in stocks of soft red winter. Stocks of durum are expected to increase by about 8 million bushels to around 21 million bushels. Because of very heavy exports from the Pacific Northwest in 1960-61, stocks of white wheat may be down by around 35 million bushels.

Prospective carryover stocks by classes July 1, 1961, in million bushels (July 1, 1960 in parentheses) are as follows: Hard red winter, 1,232 (999); soft red winter, 12 (11); hard red spring, 236 (227); durum, 21 (13) and white, 30 (65).

^{1/} The 4 great wheat producing areas of the United States were shown on a map in the Wheat Situation of April 1959. Hard red winter wheat is grown principally in the Southern Great Plains and hard red spring chiefly in the Northern Great Plains. These hard wheats are especially suited to the making of bread flours. Soft red winter wheat is produced in the eastern half of the United States and white wheat predominates in the Pacific Northwest, with important districts also in Michigan, New York and California. Flours from soft red and soft white wheats are used in the making of pastry, crackers, biscuits and cakes. Durum wheat is grown principally in North Dakota and adjoining States. This type of wheat is used in the manufacture of macaroni, spaghetti, and similar products.

Hard red winter wheat supplies present our greatest surplus problem. This is not because we do not use and export large quantities; rather it is because our production is so very large. Of the total wheat consumed as food in the United States, 40 percent is hard red winter. Exports of hard red winter make up half of our total exports.

While the general level of wheat prices is related to the support level, the price of each class of wheat reflects its own supply and demand situation. The price of soft red winter wheat usually averages about the same or above the price of hard red winter, but large crops of soft red winter resulted in depressed prices of that type in 1952-55. The price of No. 1 Dark Northern Spring wheat at Minneapolis in the past 10 years averaged 10 cents above that of No. 2 Hard Winter at Kansas City. The price of white wheat at Portland was high relative to other markets in 1956 and 1957, as a result of the unusual export demand.

The Wheat Supply Outlook for 1961-62

With the minimum national allotment of 55 million acres in effect for 1961, it is estimated that about 53 million acres may be harvested. Moisture conditions have been favorable for germination and early growth of winter wheat in the Southwest. However, seeding and germination were delayed in the Ohio River Valley by dry soils. Should the 1956-60 average yield of 23.3 bushels be obtained, a crop of about 1,235 million bushels would be produced. Harvested acreage in 1960 is indicated at 52,995,000 acres, with an average yield of 25.8 bushels per harvested acre.

A 1961 crop of 1,235 million bushels would be about 10 percent below the 1,368 million indicated for this year, but 13 percent above the 1950-59 average of 1,095 million. Domestic disappearance may be expected to continue at about the 610 million-bushel level. Exports are expected to be down from the 550 million bushels estimated for this year, assuming normal growing conditions in Europe. If exports are assumed to be 525 million bushels, an increase in the carryover July 1, 1962 of around 100 million bushels is indicated.

The Price Situation and Outlook

Since harvest this year, wheat prices have been higher than usual relative to support levels. This strength reflects the large quantities withheld from the market and large scale exports. Because prices have risen to near or above the effective support level, further advances may be less than usual. Markets may display some temporary weakness at times.

Reflecting the market strength this year, U. S. prices to farmers in 1960-61 may average about 5 cents below the announced national average support rate, or about the same as last year when the price averaged \$1.76 per bushel, and the loan was \$1.81.

The "advance" minimum national average support price of \$1.78 per bushel for 1961-crop wheat was announced on July 5. This is the same as the 1960 average support price. The average support price for the 1959 crop was \$1.81 and for 1958-crop wheat, \$1.82. The \$1.78-per-bushel minimum average support for 1961-crop wheat is based on the July 1960 modernized parity price of \$2.37 per bushel. This "advance" minimum price will not be reduced; it could be raised if the parity price at the beginning of the 1961 marketing year should be higher.

Wheat: Supply and distribution, United States,
1954-59 and 1960 projected

Item	Year beginning July						
	1954	1955	1956	1957	1958	1959 1/	1960 2/
	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.	Mil. bu.
<u>Supply</u>							
Carryover on July 1	933.5	1,036.2	1,033.4	908.8	881.0	1,295.1	1,315
Production	983.9	934.7	1,004.3	950.7	1,461.7	1,128.2	1,368
Imports 3/	4.2	9.9	7.8	10.9	77.8	7.2	7
Total	1,921.6	1,980.8	2,045.5	1,870.4	2,350.5	2,430.5	2,690
<u>Domestic disappearance</u>							
Food 4/	486.0	481.6	482.5	484.0	492.7	492.0	495
Seed	64.8	67.7	57.7	63.2	65.1	64.1	64
Industry	.2	.7	.5	.3	.1	.1	---
Feed 5/	60.0	51.1	46.5	39.0	54.2	47.0	50
Total	611.0	601.1	587.2	586.5	612.1	603.2	609
Exports 6/	274.4	346.3	549.5	402.9	443.3	512.4	550
<u>Total disappearance</u>	885.4	947.4	1,136.7	989.4	1,055.4	1,115.6	1,159
Stocks on June 30	1,036.2	1,033.4	908.8	881.0	1,295.1	1,314.9	1,531

1/ Preliminary. 2/ Projected. 3/ Excludes imports of wheat for milling in bond and export as flour. 4/ Includes shipments to United States Territories and wheat for military food use at home and abroad. 5/ This is the residual figure, after all other disappearance is accounted for. 6/ Actual exports. Prior to October 1954 they included those for civilian feeding under the military supply program.

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

SOME PREVIEWS OF POPULATION CHANGES IN LOW-INCOME FARMING AREAS

Talk by Gladys K. Bowles
Agricultural Economics Division
at the 38th Annual Agricultural Outlook Conference
Washington, D. C., 10:15 A.M., Wednesday, November 16, 1960

Introduction

The April 1955 report of the Secretary of Agriculture to the President on problems of low-income farms, "Development of Agriculture's Human Resources," delineated problem areas of the United States on the basis of low farm incomes and low levels of living in agriculture.^{1/} This report defined the areas of principal concern to the Rural Development Program, although since its initiation in 1955, the Program has expanded to States and counties not originally included. The primary purpose of the Program is to improve the well-being of people in low-income areas.

I have been asked to talk to you today on population changes in low-income farming areas, since changes in numbers and distributions of people are of primary concern in the Rural Development Program. To place the low-income areas in context, certain changes in population throughout the United States will be discussed as well. Most of the data utilized in this paper come from the 1960 and previous Censuses of Population. Since data from the new censuses are just now becoming available, I have changed the title of my paper to "Some Previews of Population Changes in Low-Income Farming Areas." I hope you will keep in mind that much data that I should like to present today are not yet available and that the data used from the current Census of Population are in large measure preliminary. Perhaps when you come back next year at Outlook time, you'll find us better prepared to fill in the outline presented today.

U. S. Region, Division, and State Population Changes

Although the final count of persons living in the United States at the time of the 1960 Census has not yet been published by the Bureau of the Census, indications are that the number will be fairly close to 179.2

^{1/} U. S. Department of Agriculture. "Development of Agriculture's Human Resources, A Report on Problems of Low-Income Farmers." Washington, D. C., April 1955. For detailed information on the Areas, see Calvin L. Beale and Jackson V. McElveen, "Low Income and Level of Living Areas in Agriculture," Agricultural Marketing and Research Services, April 1955.

million. ^{2/} Thus the population has increased since 1950 by nearly 28 million or a little more than 18 percent, a somewhat larger increase than ⁱⁿ the 1940's, when the population increase was about 14.5 percent. ^{3/}

United States estimated population, including Alaska and Hawaii:

Total population residing in the U. S.
(Excluding armed forces abroad)

April 1, 1960.....	179,204,000
April 1, 1950.....	<u>151,326,000</u>
Increase	27,878,000

As in the previous decade, the West led the regions in amount and rate of growth (Table 1). In this rapidly growing section of the country, population increased by 7.6 million or 37 percent in the 1950-60 decade. The South showed a growth of nearly as many people, 7.3 million, but the rate of growth was less than half that of the West, 15 percent. This same rate of growth prevailed in the North Central Region, but in numbers, the North Central had gained less, about 6.8 million. The Northeast gained just under 5 million people and had the smallest rate of gain, 12.4 percent in the 10-year period.

As is to be expected, the two divisions of the West ranked first in rates of growth among the 9 major geographic divisions of the Nation, with increases of 34.1 percent and 38.5 percent for the Mountain and Pacific, respectively. The Pacific Division had the largest absolute increase, 5.8 million, with the East North Central States running a close second with 5.6 million. The East North Central and South Atlantic Divisions, in addition to the West, had rates of growth in excess of that for the Nation.

New York continued to rank first as the most populous State and Alaska had the fewest people in 1960. New York, California, Pennsylvania, Illinois, Ohio, Texas, Michigan, New Jersey, and Massachusetts - the same States that were highest-ranking in 1950 - continued to be found in same rank order in 1960. Florida, however, advanced from 20th State in 1950 to 10th State in 1960, replacing North Carolina in the top 10. Florida had the largest rate of growth among the States in the decade, 76.3 percent. Three other States, namely Nevada, Arizona, and Alaska, had growth rates

^{2/} U. S. Bureau of the Census, Current Population Reports, Population Estimates, "Estimates of the Population of the United States, January 1, 1950 to September 1, 1960," Series P-25, No. 222, October 1960, estimate of population living in U. S. (excluding armed forces overseas).

^{3/} Data in this section are based on data in 1960 Census of Population, Preliminary Reports, Population Counts for States, PC(Pl)-1, Washington, D. C., August 1960. Number and percent of changes in population were computed on the basis of preliminary figures before allocation of 1.1 million persons enumerated on special census forms. This 1.1 million consists mainly of crews of American vessels in ports of the U. S. and persons enumerated away from their usual place of residence.

in excess of 70 percent. Fifteen additional States grew at rates in excess of that for the country as a whole. In Table 1 you will find population changes for all 50 States, so you will know what has happened in your State.

California had the highest absolute increase in population in the 1950's. Nearly one-fifth of the entire increase for the United States was accounted for by California. Florida, New York, Texas, Ohio, Michigan, Illinois, and New Jersey had over 1 million persons more in 1960 than they had had in 1950. Seven States had increases between 500,000 and 1 million. On the other end of the scale, three States, West Virginia, Arkansas and Mississippi, and the District of Columbia, lost population during the decade.

According to preliminary figures of the 1960 Census of Population, the country is becoming more and more urbanized. Nearly two-thirds of the population now reside in the Standard Metropolitan Statistical Areas defined by the Bureau of the Budget.^{4/} These Areas are the large central cities of 50,000 or more people and their surrounding metropolitan counties. Within the Metropolitan Areas, the most striking population increases have occurred in the suburbs outside the Central Cities. Over two-thirds of the increase in population in the country as a whole between 1950 and 1960 occurred in those parts of Metropolitan Areas surrounding the Central Cities, and in 1960, one-third of the population of the country lived in the metropolitan Rings whereas only one-fourth had lived there in 1950. Between 1950 and 1960, the number of people living in Metropolitan Areas increased by about 27 percent. On the other hand, the population outside Metropolitan Areas increased by only about 4 percent, and the percentage that nonmetropolitan population comprised of the total decreased, dropping from 42 to 37 percent of the total.

Not all Metropolitan Areas and their Central Cities had increases in population during the decade. Changing economic conditions in a number of Metropolitan Areas caused net outmigration of people to other places. Several of the Metropolitan Areas as a whole declined in population, for instance, Altoona, Jersey City, Johnstown, New Bedford, St. Joseph, Scranton, Wheeling and Wilkes-Barre-Hazleton. Of the Central Cities within Metropolitan Areas, about 70 percent gained and 30 percent lost population. Many of the Central Cities lost population to their suburbs, but most of the Metropolitan Areas as a whole have gained.

All four of the Census major regions showed the same general patterns of population change during the decade. The greatest percentage gains occurred in the suburbs, lesser increases or decreases occurred in the Central Cities, and low increases or large decreases in the rest of the region. Metropolitan Areas of the West showed the greatest increase in suburban population followed by those of the South and the North Central States.

^{4/} Data in this and the following paragraph are based on data from U. S. Department of Commerce, Office of Area Development, "Area Development Bulletin," Vol. VI, No. 4, August-September 1960.

Population Changes in Areas of Low Farm Income

As indicated in the report "Development of Agriculture's Human Resources," 5/ "Farms with low income are found in all parts of the country, but such farms are most numerous in areas of dense rural settlement with high birth rates, and where there are few outside jobs, and where topography or other obstacles hinder the use of modern machinery ... Problem areas were delineated on the basis of three criteria: Net income of full-time farmers, levels of living, and size of operation." Complete explanation of the delineation can be found in the two publications listed in footnote 1. Chart 1, "Low Income and Level of Living Areas in Agriculture" shows the areas in question. The areas of darkest hatchings are those in which problems of low income and levels of living were considered to be serious, those with diagonal lines had substantial problems, and the dotted ones were those of moderately serious problems. These are generally identified as "Serious," "Substantial," and "Moderate" Areas. Within the larger low-income area, nine generalized areas were defined, as indicated by the numbers on Chart 1.

In the analysis to follow of general population changes within the low-income farming areas, and of these areas contrasted with changes in other parts of the country, percentage change in total population resident in the United States (excluding Alaska and Hawaii) will be used as a comparative base. In the absence of more precise measures of change due to (1) natural increase (excess of births over deaths) and (2) net migration (including immigration), comparison of their percentage changes with the national level of change indicates in a general way areas which have had net outmigration or net immigration. A percentage change greater than the national level of change indicates that there has been net inmovement from other parts of the country. On the other hand, a percentage increase of less than the national average generally indicates that there has been net outmigration, although the outmigration is less than the amount of the natural increase. And, of course, an absolute decline in population indicates heavy net outmigration because all large areas of the country have substantially more births than deaths.

Within the conterminous United States (that is, excluding Alaska and Hawaii) the Atlantic, Pacific and Gulf coastal areas, the areas around and south of the Great Lakes, and much of the noncoastal West have gained population at rates equal to or in excess of the national average. In the vast Middle West, the South, and the Appalachian States, the only areas of increase are those of highly industrialized urbanized counties. With only rare exceptions, rural counties in these areas show population loss.

In contrast with the United States as a whole, which gained 18 percent in population between 1950 and 1960, the sections of the country having large numbers of low-income farms gained only 4.5 percent during this period (Table 2). Moderate Problem Areas gained about 6 percent in population during the decade, those with substantial problems gained 10

5/ See footnote 1.

percent, and those with serious problems gained only .5 percent. Percentages of this magnitude indicate that there has been net outmigration from each of these broad areas, but in varying amounts. In the Serious Areas, for instance, an increase of .5 percent indicates that natural increase was just about offset by net outmigration.

The Serious Areas are highly rural in population. In 1950, and in 1960, they had a total population of about 14 million, but there was not in 1950 nor in 1960 a single city of as much as 150,000 people, although Jackson, Mississippi and Savannah, Georgia had nearly reached this number. In these areas, production, income, and levels of living among farm people all fall below minimum standards. In Chart 1 it can be seen that the Serious Areas fall within the South and Border South, except for the group of counties in Northwestern New Mexico. Included are the Old Cotton Belt, except for the Mississippi Delta, and except for some sections which have switched to tobacco or peanut production or which are near large industrial cities. They also include most of the Appalachian and Ozark Mountains and Plateaus.

Of the nine generalized geographic low-income areas, the Appalachian Mountain and Border Areas, Southeastern Hilly Coastal Plain, Southwestern Sandy Coastal Plains, and Ozark-Ouachita Mountains and Border Areas all had decreases in total population during the decade. The first two mentioned decreased about 1 percent. In the other two, decreases amounted to 7 and 3 percent, respectively. Although the other Generalized Areas had increases in total population, only Northwestern New Mexico retained its natural increase and had inmigration in addition. Increases of the magnitude shown by the others (ranging from 3 to 15 percent) indicate that they had some outmigration during the period.

Included in these low-income farming areas, as they were delineated in 1955, were a number of small Metropolitan Areas which were deemed to be affected in some measure by the seriousness of the low-income problems of their surrounding farming areas. These Metropolitan Areas showed population growth on the whole, but not to the same degree as shown by such areas in the rest of the country. Metropolitan Areas in the low-income farming country gained 16 percent, contrasted with 21 percent growth of these large urban places in other parts of the country. Nevertheless, it is the growth rate of the Metropolitan places of the low-income farming areas which brings the overall rate of growth up to 4.5 percent during the decade. Nonmetropolitan counties gained only 2.6 percent. Both increase rates, however, indicate substantial outmigration during the period.

Within the low-income area, increases in population greater than the country as a whole occurred in cities where industrial development has been rapid in the decade, and/or which have new or expanded military installations. In Virginia, in the area including Langley Air Force Base, Yorktown Mine Depot, and Fort Eustis, population increased by about 28 percent. In Central North Carolina where agriculture has been declining for many years and industry has been expanding, population increases just over the national average occurred. In nearby contiguous areas, population had increased nearly as much, around 15 or 16 percent.

In South Carolina and Georgia, the Fall Line Cities and the coastal areas of Charleston (with its big air force and naval bases) and Savannah (with Hunter Air Force Base) had increases around 24 percent. Areas in northwestern and southern Alabama and in western Florida had a combination of maritime, industrial, and military expansion. Keesler Air Force Base contributed to the expansion in southern Mississippi. Southern Louisiana has undergone tremendous industrial growth, with various petrochemical and other plants moving in during the decade, particularly along the Mississippi River, and the industrial development of Shreveport has contributed to population growth in its area.

Growth of Cincinnati is reflected in adjacent low-income counties in southern Ohio and the expansion of Fort Knox installations brought about increases in counties in Central Kentucky, as did Fort Leonard Wood to its area in Missouri. In central Michigan, metropolitan Saginaw and Bay City have had rapid growth in the decade. In the Northwest, Seattle's expansion influences the general growth pattern of nearby areas.

Among the low-income areas, according to the 1955 definition, northwestern New Mexico showed the fastest rate of growth, resulting from the rapid development of Albuquerque, the expansion of mining, particularly for uranium, and the growth around atomic energy installations.

In large measure, population loss in the low-income farming areas is due to heavy migration away from farms and from small towns and cities. Between 1950 and 1959, the farm population of the entire country dropped from 25,058,000 to 21,172,000 on the old definition. This means that roughly a net of 7.0 to 7.5 million people have left for nonfarm places in the past 10 years, or that people have left at about the same rate as they did in the 1940-50 decade when the rate of outmigration was 31 percent. In addition to decline through outmigration of people, the official estimates of farm population for 1960 will be substantially lower than those for the previous years because of change in definition of what constitutes the farm population. Although published estimates of the farm population on the new definition are not yet available, preliminary indications are that the farm population may be as much as 20 to 25 percent lower because of the change in definition.

Because of changes in definition, we will probably not be able to measure precisely net migration away from farms by characteristics of people leaving and not for small areas as we were able to do for three earlier decades. We can surmise from experience of the past, and data already presented indicate in some measure, however, that rates of outmigration have probably been higher from the low-income and low level-of-living areas than for other parts of the country. In the 1940-50 decade, rate of net outmigration from the farm population was 34 percent in the low-income areas compared with a rate of 28 percent for the rest of the farm population (Table 3). Rates of outmigration were highest in the areas with most serious income problems. In that period, in the Moderate Areas, a net rate of 28 occurred while in the Serious Areas the rate was 37.

Among the Generalized Areas, the highest net outmigration rate occurred in the Sandy Coastal Plains of Arkansas, Louisiana, and Texas; there the rate was 49 percent. The Cascade and Rocky Mountain Areas had

a relatively low rate of net outmigration -- about 16 percent -- but in all other areas, the net loss was from a fourth to nearly a half of the rural-farm population between 1940 and 1950.

Highest rates of outmigration occur among young people just reaching working age, and this is particularly true in the low-income areas. If rates similar to those of the 1940-50 decade have prevailed in the 1950-60 period, it is likely that about 55 to 60 percent of the young people aged 10 to 19 who were on farms in 1950 have migrated to nonfarm places by 1960. Other groups with relatively high rates -- persons reaching retirement age, for example -- have probably experienced rates in the neighborhood of 25 or 30 percent, and rates for middle-aged people and people with young children have probably been lower.

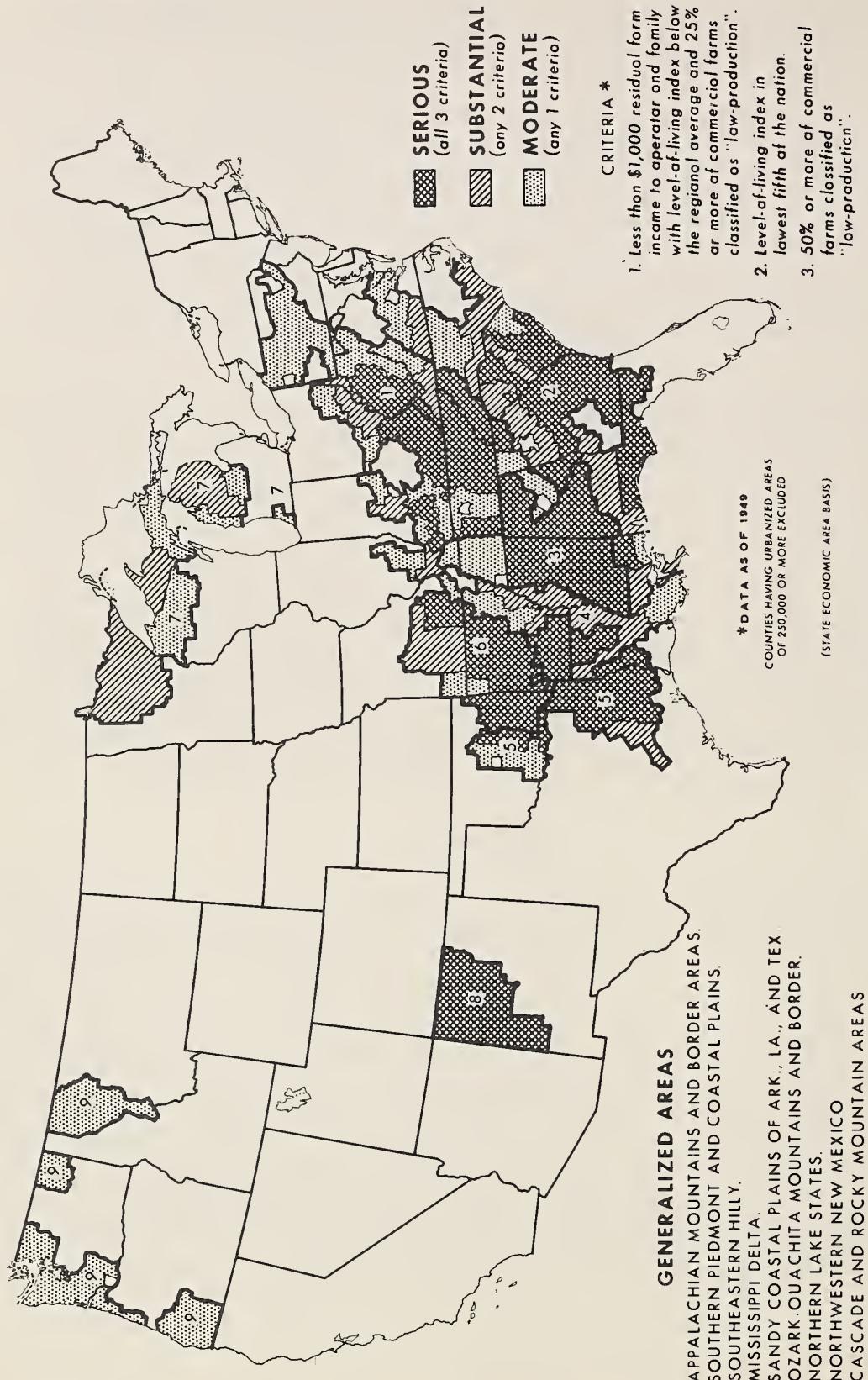
Among young people in the low-income areas, rates of outmigration for the 1940-50 decade were extremely high. The rate for young people reaching working age during the decade in each of the Generalized Areas was over 50 percent and in the case of the Sandy Coastal Plains it was 75 percent.

That rates of this magnitude have occurred in the 1950-60 decade, is obvious, even in the absence of precise estimates. Opportunities on farms have not increased in this decade. In fact, they have diminished as is evidenced by decline in number of farms from 5.4 million in 1950 to about 3.7 million (on the new definition) in 1959. Also, more farm young people are taking advantage of higher education opportunities. And in the main, there has been high level of nonfarm employment during the decade for those leaving farm employment for nonfarm places.

Conclusion

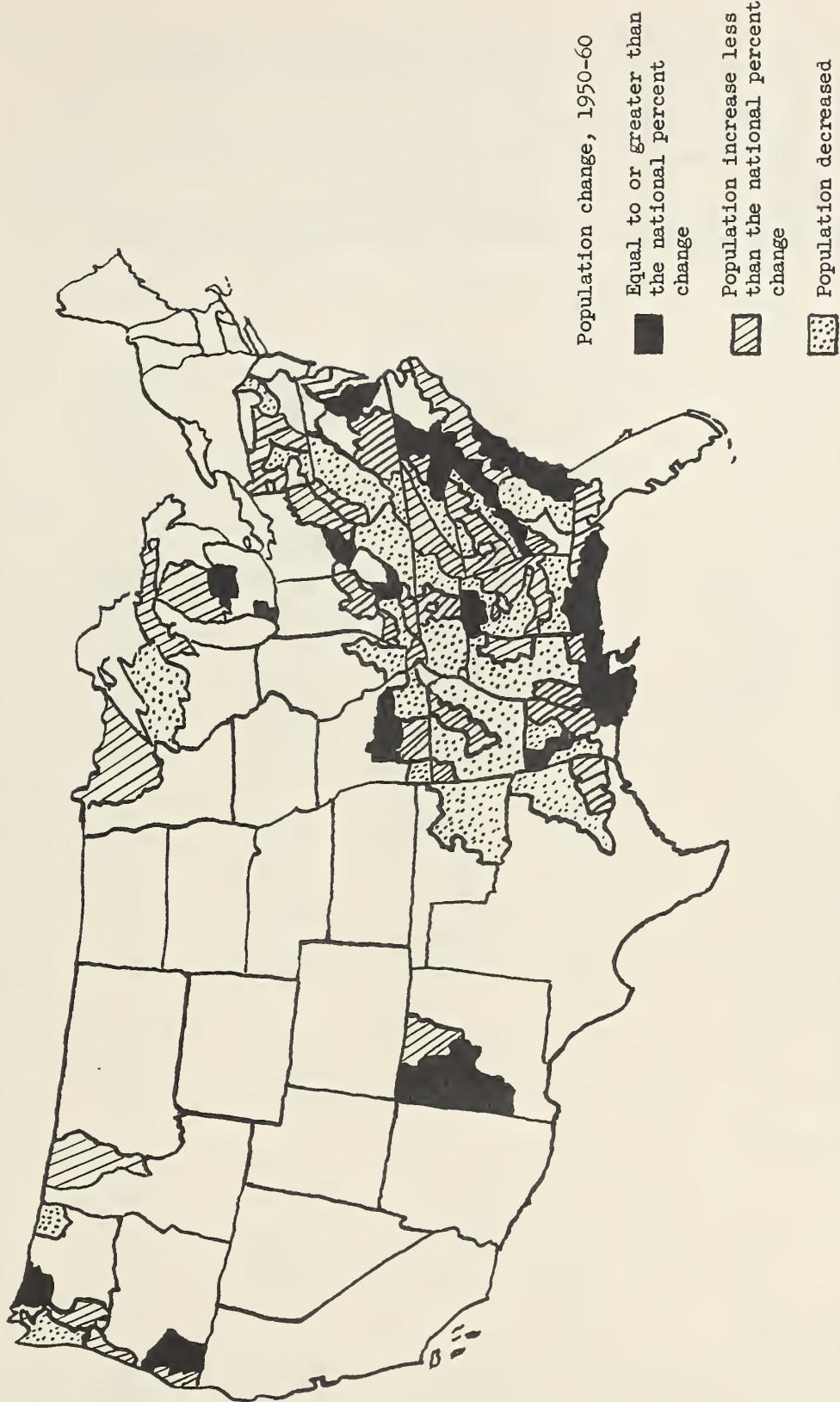
Although certain of the low-income areas have achieved a more balanced economy by virtue of increased industrial or military employment in the last decade, their very low over-all rate of population gain indicates that economic activity in such areas is still insufficient to fully utilize the native labor force with the result that large numbers of people continue to migrate out of these areas in search of employment opportunities elsewhere. Thus outmovement is still the means by which large numbers of people are adjusting to the economic problems they have. The high rates of outmigration, apparent from the figures on total population change, would seem to be clear evidence of the great need that these areas have for Rural Development Programs and in particular for increased nonagricultural job opportunities to offset the declining manpower needs in agriculture. A more prosperous agriculture would also greatly help to provide additional jobs in the trades and service occupations in such areas.

LOW-INCOME AND LEVEL-OF-LIVING AREAS IN AGRICULTURE



PREPARED BY AMS AND ARS

POPULATION CHANGE, LOW INCOME AND LOW LEVEL-OF-LIVING AREAS, 1950-60



Source: 1950 Census of Population and preliminary releases of the 1960 Census of Population.

Chart 2

Table 1.--Population of the United States, by Regions, Divisions,
and States: 1960 (Preliminary)* and 1950

(Figures in thousands. Minus sign (-) denotes decrease)

Area	Population		Increase, 1950 to 1960	
	1960	1950	Number	Percent
United States.....	177,874	151,326	26,548	17.5
REGIONS:				
Northeast.....	44,359	39,478	4,881	12.4
North Central.....	51,308	44,461	6,848	15.4
South.....	54,463	47,197	7,266	15.4
West.....	27,744	20,190	7,554	37.4
DIVISIONS:				
New England.....	10,424	9,314	1,110	11.9
Middle Atlantic.....	33,935	30,164	3,771	12.5
East North Central.....	35,995	30,399	5,596	18.4
West North Central.....	15,313	14,061	1,252	8.9
South Atlantic.....	25,703	21,182	4,520	21.3
East South Central.....	11,963	11,477	486	4.2
West South Central.....	16,797	14,538	2,260	15.5
Mountain.....	6,805	5,075	1,730	34.1
Pacific.....	20,939	15,115	5,824	38.5
NEW ENGLAND:				
Maine.....	962	914	48	5.3
New Hampshire.....	601	533	68	12.7
Vermont.....	387	378	10	2.5
Massachusetts.....	5,115	4,691	425	9.1
Rhode Island.....	842	792	50	6.3
Connecticut.....	2,517	2,007	510	25.4
MIDDLE ATLANTIC:				
New York.....	16,656	14,830	1,826	12.3
New Jersey.....	6,040	4,835	1,204	24.9
Pennsylvania.....	11,239	10,498	741	7.1
EAST NORTH CENTRAL:				
Ohio.....	9,647	7,947	1,700	21.4
Indiana.....	4,633	3,934	699	17.8
Illinois.....	10,006	8,712	1,294	14.9
Michigan.....	7,778	6,372	1,406	22.1
Wisconsin.....	3,930	3,435	496	14.4
WEST NORTH CENTRAL:				
Minnesota.....	3,391	2,982	409	13.7
Iowa.....	2,743	2,621	122	4.6
Missouri.....	4,293	3,955	338	8.6
North Dakota.....	627	620	8	1.2
South Dakota.....	677	653	24	3.7
Nebraska.....	1,405	1,326	79	6.0
Kansas.....	2,178	1,905	273	14.3

(Continued)

Table 1.--Population of the United States, by Regions, Divisions,
and States: 1960 (Preliminary)* and 1950--Continued

(Figures in thousands. Minus sign (-) denotes decrease)

Area	Population		Increase, 1950 to 1960	
	1960	1950	Number	Percent
SOUTH ATLANTIC:				
Delaware.....	443	318	125	39.2
Maryland.....	3,075	2,343	732	31.2
District of Columbia.....	746	802	-57	-7.1
Virginia.....	3,904	3,319	585	17.6
West Virginia.....	1,848	2,006	-158	-7.9
North Carolina.....	4,532	4,062	470	11.6
South Carolina.....	2,359	2,117	242	11.4
Georgia.....	3,911	3,445	466	13.5
Florida.....	4,886	2,771	2,115	76.3
EAST SOUTH CENTRAL:				
Kentucky.....	3,016	2,945	71	2.4
Tennessee.....	3,536	3,292	245	7.4
Alabama.....	3,246	3,062	184	6.0
Mississippi.....	2,165	2,179	-14	-0.6
WEST SOUTH CENTRAL:				
Arkansas.....	1,771	1,910	-138	-7.2
Louisiana.....	3,234	2,684	550	20.5
Oklahoma.....	2,303	2,233	70	3.1
Texas.....	9,489	7,711	1,777	23.0
MOUNTAIN:				
Montana.....	670	591	79	13.3
Idaho.....	663	589	74	12.6
Wyoming.....	328	291	37	12.7
Colorado.....	1,744	1,325	418	31.6
New Mexico.....	944	681	263	38.6
Arizona.....	1,288	750	539	71.9
Utah.....	887	689	198	28.8
Nevada.....	282	160	122	76.2
PACIFIC:				
Washington.....	2,830	2,379	451	19.0
Oregon.....	1,758	1,521	236	15.5
California.....	15,507	10,586	4,921	46.5
Alaska.....	224	129	95	74.2
Hawaii.....	620	500	121	24.1

* Excludes estimated number of persons enumerated on special forms not allocated to their State of usual residence and members of the Armed Forces overseas.

Note: Figures are rounded to nearest thousand without being adjusted to group totals.

Source: See footnote 3 on page 2.

Table 2.--Population in low-income farming areas, 1960 (Preliminary) ^{1/} and 1950.

(Figures in thousands. Minus sign (-) denotes decrease)

Area	Total population			Metropolitan population			Nonmetropolitan population		
	1960 ^{1/}	1950	Per- centage change	1960 ^{1/}	1950	Per- centage change	1960 ^{1/}	1950	Per- centage change
United States	177,030	150,697	17.5	102,180	84,614	20.8	74,850	66,083	13.3
Low-income farming areas ^{2/}	36,370	34,813	4.5	5,827	5,031	15.8	30,543	29,782	2.6
Moderate low-income farming areas	12,962	12,269	5.6	1,717	1,544	11.2	11,246	10,726	4.8
Substantial low-income farming areas	9,144	8,351	9.5	1,533	1,225	25.1	7,611	7,125	6.8
Serious low-income farming areas	14,264	14,193	.5	2,577	2,262	13.9	11,687	11,931	-2.0
Generalized low-income farming areas ^{3/}	36,370	34,813	4.5	5,827	5,031	15.8	30,543	29,782	2.6
1 Appalachian Mountain and Border areas	12,000	12,130	-1.1	2,515	2,414	4.2	9,485	9,716	-2.4
2 Southern Piedmont and Coastal Plains	10,987	9,620	14.2	2,042	1,557	31.1	8,946	8,063	10.9
3 Southeastern Hilly	3,398	3,441	-1.2	355	281	26.3	3,043	3,160	-3.7
4 Mississippi Delta	2,420	2,347	3.1	213	177	20.9	2,206	2,170	1.7
5 Sandy Coastal Plains of Arkansas, Louisiana, and Texas	2,045	2,196	-6.9	---	---	---	2,045	2,196	-6.9
6 Ozark - Ouachita Mountains and Border	1,856	1,914	-3.0	239	197	21.7	1,616	1,717	-5.9
7 Northern Lake States	1,998	1,836	8.8	462	406	13.8	1,535	1,430	7.4
8 Northwestern New Mexico	503	321	56.9	---	---	---	503	321	56.9
9 Cascade and Rocky Mountain areas	1,163	1,009	15.3	---	---	---	1,163	1,009	15.3

Figures are rounded to nearest thousand without being adjusted to group totals.

^{1/} Excludes estimated number of persons enumerated on special forms not allocated to their State of usual residence and members of the Armed Forces overseas.

(Continued)

(Continued)

- 2/ Areas delineated in "Development of Agriculture's Human Resources--A Report on Problems of Low-Income Farmers". Low-income farms were classified on the basis of three criteria for State Economic Areas: (1) Farms in State Economic Areas average less than \$1,000 residual farm income to operator and had farm-operator family level-of-living index below the regional average and 25 percent or more of commercial farms classified as "low production". (2) Average farm-operator level-of-living index for the State Economic Areas was in the lowest fifth for the nation. (3) Fifty percent or more of commercial farms in State Economic Areas were classified as "low production". Areas denoted as Serious in Table 2 met all three criteria; areas denoted as Substantial met any 2 of the criteria; areas denoted as Moderate met any one of the criteria.
- 3/ The generalized areas represent geographic groupings of the low-income farming areas.

Source: U. S. population: U. S. Bureau of Census. Preliminary Reports, Population Counts for States. PC (P1)-1. August 1960. (Excluding Hawaii and Alaska.)

Metropolitan and nonmetropolitan population: U. S. Bureau of Census. Preliminary Reports, Population Counts for States. PC (P1)-2 through 52. July 1960. (Excluding Hawaii and Alaska) or preliminary county totals (press releases).

Table 3.--Net migration rates, farming income areas, United States

(Minus sign (-) denotes outmigration)

Area	Rate of net migration 1/		
	1940-50		
	1930-40	All ages	Age 15-19 in 1940
United States	---	---	---
Urban and rural-nonfarm	---	---	---
Rural-farm	-12.7	-30.9	-55.8
Medium and high-income farming areas	-13.2	-28.0	-50.1
Low-income farming areas	-12.5	-33.8	-60.9
Moderate low-income farming areas	-8.3	-27.8	-56.4
Substantial low-income farming areas	-13.9	-34.9	-60.9
Serious low-income farming areas	-14.2	-36.9	-63.6
Appalachian Mountain and Border areas	---	-27.8	-57.4
Southern Piedmont and Coastal Plains	---	-34.8	-61.6
Southeastern Hilly	---	-34.5	-60.3
Mississippi Delta	---	-39.9	-59.3
Sandy Coastal Plains of Arkansas, Louisiana, and Texas	---	-49.1	-75.1
Ozark-Ouachita Mountains and Border	---	-33.4	-60.8
Northern Lake States	---	-29.2	-59.3
Northwestern New Mexico	---	-39.6	-60.8
Cascade and Rocky Mountain areas	---	-16.0	-54.3

1/ Change due to migration expressed as a percentage of farm population alive at both beginning and end of decade.

Source: Bowles, Gladys K. Farm Population...Net Migration from the Rural-Farm Population, 1940-50. Agricultural Marketing Service. June 1956.

UNITED STATES DEPARTMENT OF AGRICULTURE

SPECIAL U.S. AGRICULTURAL EXPORT PROGRAMS

by Raymond A. Ioanes
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Every decade of American history has been marked by at least one outstanding achievement in the field of agriculture--invention of a machine, development of a hybrid plant, initiation of a program--which has stimulated progress. The decade of the 1950's was no exception. Among other accomplishments of that period was evolution of an agricultural export policy geared not only to markets in cash-paying nations of the world but also to the needs of the underdeveloped countries. This broadened policy has meant greatly expanded export markets for American farmers. In the fiscal year 1960 the volume of agricultural shipments set a new record--and exports in the fiscal year 1961 are also expected to be high.

The overall drive to expand exports has many parts. Of these, the special export programs authorized by Public Law 480 and the Mutual Security Act have been particularly important. These programs, which include foreign currency sales, donations, barter, and long-term credit, have made it possible to channel substantial quantities of U.S. food and fiber to needy peoples abroad, particularly in the underdeveloped countries. The special programs are the heart of what has come to be called the Food-for-Peace program.

Today I shall direct my remarks solely to the special programs--not to export sales for dollars nor to short and medium term credit sales for dollars.

WHAT THE SPECIAL PROGRAMS ARE

It would be profitable, I think, to review the broad outlines of existing programs--type of program, legislative authority, and relative importance in the overall export picture.

Sales for Foreign Currencies: Sales of U.S. surpluses to friendly countries for foreign currencies under Title I, Public Law 480 are, in terms of volume, the largest special export program.

Agreements between the United States and friendly governments specify the amounts of commodities to be financed and the purposes for which foreign currency payments will be used by the importing country and by U.S. agencies, including the U.S. Department of Agriculture. Export sales are made under these agreements by private U.S. exporters. Since 1958 authorizations for this program have been at an annual rate of \$1.5 billion in terms of the cost of the commodities to the Commodity Credit Corporation. This compares with an authorization of \$700 million for a 3-year period when the program was initiated in 1954.

In 1959-60 when our agricultural exports were \$4.5 billion, shipments under Title I made up about 18 percent of the total.

Foreign currency sales are also made under the Mutual Security Act. The Act currently requires that not less than \$175 million of MSA funds be used to finance the export and sale of U.S. agricultural surpluses. The foreign currency proceeds are used principally to further the objectives of the foreign aid program. Unlike provisions of Title I, the Mutual Security Act contains no legislative requirement that sales be in addition to established commercial marketings. Another difference is that fewer countries participate in the Mutual Security commodity program because fewer receive economic assistance and some are agricultural exporting countries. In 1959-60 exports under the MSA program were about 4 percent of total U.S. agricultural exports.

Emergency Relief Operations: Grants of CCC stocks are being used for famine relief and other assistance abroad under Title II of Public Law 480. To a large extent, this is emergency assistance furnished to friendly countries on a government-to-government basis with the commodities donated to recipients. Occasionally, however, assistance is furnished to friendly peoples without regard to the friendliness of their governments. In such cases, supervision of commodity distribution is undertaken by an organization such as the International Red Cross.

A new feature of Title II, and one that appears quite promising, was recommended by the Administration and adopted by the Congress during the last session. It authorizes the use of commodities for economic development purposes in addition to that which can be accomplished under Title I. Like Title I, the current authorization by the Congress extends to the end of calendar year 1961. The present annual authorization is \$300 million at CCC cost. In 1959-60 Title II exports totalled 2 percent of our farm product exports.

"People-to-People" Donations: Title III of Public Law 480 expands the previous authority to make donations of CCC commodities to needy persons abroad through non-profit voluntary relief agencies. Such donations are also made through intergovernmental relief organizations, of which the United States is a member, such as the United Nations Children's Fund. Preserving the people-to-people concept, voluntary agencies concentrate on programs operated by their own organizations and by indigenous private relief groups. Most of the shipments under this program are to underdeveloped countries; but in some cases commodities are distributed to needy groups in nations which have strong economies, such as West Germany and Italy. In 1959-60 about 21 agencies participated in this program. Commodities donated by the United States went to 92 countries and territories. These shipments represented 2 percent of total U.S. agricultural exports last year.

Barter: Title III of Public Law 480 also gives greater emphasis to the barter program. Under this authority CCC exchanges its commodities with private U.S. traders for an equal value of materials required in U.S. Government offshore construction projects or military assistance programs, or for the U.S. stockpile, which is by far the major exchange basis. Contracts are executed between CCC and private U.S. firms which agree to export CCC commodities to approved destinations and to deliver specified foreign produced materials. Exports under this program averaged more than \$140 million annually during each of the last two years. In 1959-60 barter shipments made up 3 percent of our agricultural exports.

The extent to which barter should be used as an export tool has been warmly discussed in recent years. The possibility that barter might be interfering with U.S. cash sales and commercial sales of friendly countries was the main point at issue. In any event, the barter program is being administered so as to prevent undue interference with established commercial marketings--or disruption of world prices--and the need for this protection has been recognized in the law. This policy encourages the shipment of barter commodities to underdeveloped countries rather than to cash markets.

The barter and donation authority in Title III have no time or fund limits.

Long-Term Dollar Credit: Title IV of Public Law 480, enacted during the last session of Congress, authorizes commitments to supply surplus agricultural commodities to friendly foreign countries for periods up to 10 years on a dollar credit basis with repayments taking place for periods up to 20 years. The law recognizes that such supply commitments can be withdrawn if the commodities included move into a non-surplus position during the life of the agreement. No agreements have been made under this authority. However, several pilot proposals in different parts of the world are being developed.

During the past six years these special U.S. export programs have resulted in the shipment of one-third of the value of total U.S. agricultural exports. The most important commodity exports have been:

wheat, 1.7 billion bushels or 75 percent of total exports;
rice, 54.2 million cwt. or 59 percent of total exports;
vegetable oils, 3.85 billion pounds or 57 percent of total exports;
feedgrains, 17 million tons or 36 percent of total exports;
cotton, 10.6 million bales or 36 percent of total exports.

HOW THE SPECIAL PROGRAMS HAVE HELPED UNDERDEVELOPED COUNTRIES

Let's look now at the way the programs contribute to the needs of underdeveloped countries and thereby promote our foreign economic relations.

The rationale of our export programs with respect to economic development is relatively simple. Most underdeveloped countries are inadequately fed by any reasonable standards of nutrition. As economic development results in income gains particularly for the laboring population, demand for food and fiber, which accounts for a large part of total consumer expenditures, also increases. If supplies of food and fiber do not keep pace with income gains, then prices rise and consumption is discouraged. Under these circumstances, labor incentives are blunted because of the impairment of real income gains. In part then, our commodities are being used to fill the food-supply gaps which are occurring in developing countries, and in part to raise consumption levels. In this way, our commodities are contributing to their efforts to spur economic development.

Much has been said about the use of foreign currencies. I don't intend to deal with that subject today. I will only say that a large part of currencies are made available as loans and grants for economic development and this offers a convenient method of assembling local currency finances.

Essentially what has been done in these programs is to encourage the movement of our farm commodities to needy groups or to countries which cannot afford to purchase all their needs commercially. This has resulted in an increasingly heavy concentration of programs in the underdeveloped countries of the world. Not all countries in the areas are underdeveloped, but in general the countries receiving the bulk of our commodities are in the Far East, Latin America, West Asia and Africa. The largest recipients for 1959-60 were India, U.A.R., Pakistan, Spain, Korea, Poland, Brazil, Turkey, and Taiwan.

FUTURE FOOD NEEDS OF THE UNDERDEVELOPED COUNTRIES

The future direction of the special export programs will be determined in large part by what happens in the underdeveloped countries.

What is the food outlook in these regions of the world?

Demand, Production and Population: Looking ahead to 1970 we expect a continued increase in per capita demand for food as a partial reflection of growth in per capita income. We foresee a large growth in their food production, but not enough to meet the demand increase. Thus, their needs for imports of food, especially grain, will increase.

We believe agricultural production in the underdeveloped regions of the free world will have risen about 3 percent per capita by 1970 as compared with 1959-60. This is a rate of growth of less than 1/3 of one percent annually. Yet even this must be considered as a remarkable achievement when records of prewar until last year are compared. Over this period all these regions produced less per capita than they did prewar.

Put another way, total population of these regions is expected to rise by 23 percent by 1970 and total agricultural production will rise 27 percent. The most important component of production, grain output, will grow by 60 million

metric tons. Yet as we see it, this growth will be insufficient to satisfy consumer demand.

Wheat Requirements: Turning to what these projections mean for wheat import requirements, we can see that these regions will probably need 150 million more bushels from exporting countries by 1970 than their net annual imports on the average for the three years 1956-57 through 1958-59. During this three-year period, U.S. exports of wheat and flour averaged 465 million bushels annually. About 300 million bushels of the total was shipped to the underdeveloped regions, mostly under special programs

During this same period, Western Europe's net wheat import requirements probably will decrease by more than 75 million bushels. Other exporting countries, and here I am thinking primarily of Russia, may be putting more wheat into the Free World by 1970.

Therefore, it is extremely difficult to estimate what part of the increased requirement for these regions will result in demands on the United States. I leave that to your judgment.

These projections result in part from the fact that the underdeveloped regions are placing more emphasis on industrial rather than agricultural expansion. If a marked shift were to occur, then our projections would be different. And the total of outside foreign assistance is of prime importance, too. If this assistance is not given at least as generously as in the past few years, then the results would change.

India a Special Case: In a discussion of this kind, we must always say a special word about India because of its population and the size of programs operating there. It is estimated that India's per capita income has increased an average of 2 percent annually during the last five years. During this time

there was an apparent gain in grain consumption per person of 7 percent. The apparent gain could not have occurred except for the large quantities of grain received from outside sources during the last three years.

For the next five years, India hopes for a 4 percent annual gain in per capita income. If this happens, there will be a marked rise in demand for food. We would expect that the demand would result in the need for India to produce 100 million tons of grain by 1965-66 compared with the current level of 73 million tons. The achievement of this goal would require Indian agriculture to increase its grain output about 6 percent annually. This is double the rate of gain in recent years in India and equal to the remarkable growth in the United States grain production from 1953 to 1959. These projections imply a rise in grain consumption of about 15 percent per capita and an increase of about 250 calories daily in food intake.

The Indian goals are bold and there is no question that they express the country's firm desire to move ahead at a fast rate. But it is our view that India's present economic plans will fall far short of meeting these goals. In the projection we made for the Far East and the other underdeveloped regions we assumed a much smaller increase in demand and obviously a much more modest increase in income as well as in production.

The estimates we have made are largely judgments. We readily admit that there are many gaps in our procedures. We will be in a much better position to make projections in this area beginning a year from now when the results of a number of foreign long-time supply/demand studies which are now underway will start becoming available.

POLICIES FOLLOWED IN SPECIAL EXPORT PROGRAM ADMINISTRATION

We have examined the special export programs themselves, and have looked into possible food needs of the underdeveloped countries--the principal beneficiaries of the special programs. Now let's turn to some of the policies that are followed in administration of the special programs.

Movement Directed to Underdeveloped Countries: Programming emphasis is placed on the movement of commodities to underdeveloped countries. These are the areas with limited ability to make commercial purchases because of foreign exchange problems and with the largest potential for increased consumption. By this I mean in total as much as I mean per capita, for in many areas the battle is to be as well fed as before, not better fed. We have had a rich experience in vegetable oil programming to Spain. Here we have seen a steady growth in a previously static consumption level of 25 pounds per year per person to 39 pounds last year. In India our commodities have been used largely to meet physical needs arising from an annual population increase of 2 percent per year and consumption increases resulting from development programs already underway.

We often hear it said that our commodities are ruining markets for domestic producers in recipient countries. It is our experience that the governments of underdeveloped countries are more anxious than anyone else not to let this happen. In India, the largest participating country, the price index for cereals has risen 37 percent in the last five years--all commodities 26 percent--manufactures 12 percent--and industrial raw materials 25 percent. This doesn't sound like much of a disincentive to cereal producers in India.

Commercial Trade Must Be Protected: Protection of established commercial trade is another important objective. In addition to careful statistical analysis and painstaking government-wide review, specific usual marketing commitments

are included in agreements when appropriate. These provide for usual commercial purchases from the United States, purchases from free world sources, or a combination of these requirements.

There is also advance consultation with friendly exporters regarding program development.

During the more than five decades from 1900 to 1954, world wheat trade rose less than 400 million bushels. From 1954 through 1960, another 300 to 400 million bushels has been added to the world trade total. Of this increase about 2/3 has been supplied by the United States and 1/3 by other exporting countries. In 1960-61 world wheat trade will be at the all-time record level of about 1.4 billion bushels. Yet, with respect to stocks, the United States since 1954 has been the only one of the big five exporting countries which has added to stocks. Carryover stocks in Canada, Argentina, Australia and France were all lower at the beginning of the current marketing year than on July 1, 1954. With respect to price, world trade prices for wheat have been remarkably stable since 1954. Canadian prices, which are the base point in the International Wheat Agreement, averaged \$1.66 per bushel during the first half of 1960, only 4 percent less than in 1954.

There is nothing to suggest that other exporting countries have had serious difficulty in moving their currently exportable supplies.

Use of Private Trade Channels Emphasized: The use of private trade channels and the observance of customary trade practices are emphasized. Sales made under the Title I program are identical with those made in usual commercial trade transactions and involve a minimum of controls because of the use of U.S. Government funds to finance purchases. We believe that use of commercial trade channels on both sides of the water provides the best opportunity for the large-scale movement of commodities with a minimum of misuse. This practice maintains

and expands trade and marketing relationships, and takes advantage of commercial "know how." I believe there is a lot to be said for maximum use of commercial facilities.

Increased Stress on Multi-year Agreements: More emphasis is being given to the negotiation of agreements on a multi-year basis. This practice does two things: first, it prevents interruption in supply lines which sometimes occur in annual programs; and, second, it permits better coordination of import programs with the underdeveloped countries own development programs which frequently involve four or five year plans. The outstanding example of such programming was the four-year agreement with India made in 1960 which provides for the shipment of 600 million bushels of wheat and 22 million bags of rice.

OUTLOOK FOR IMPROVING THE SPECIAL EXPORT PROGRAMS

Our special export programs have been going through a process of evolution from the time they were initiated in 1954 right up to the present. It has been a healthy process; the programs have gained in effectiveness. But there are possibilities of making our special export operations still more usable in the future.

The building of reserves owned and controlled by the recipient country, the encouragement of mass feeding programs for vulnerable groups, such as school children, the use of feed grains to support livestock production for home consumption all are good possibilities--and, I might add, all have limitations.

Some areas of the world are not getting a very big volume of our agricultural commodities. This is a matter that merits further exploration.

ICA Approach Shows Promising Possibilities: The International Cooperation Administration is making use of agricultural commodities to assist unemployed and underemployed people to work on labor intensive projects. This use of

surpluses is undertaken under the new provisions of Title II I mentioned earlier. What ICA is trying to do is develop programs whereby the cost of labor would be paid for in part with agricultural commodities donated by the United States and partly with supplementary cash wages furnished by cooperating countries. Cooperating countries would also furnish tools and materials and supervise the projects. I have been in many countries where people want to work and where road building, canal digging, and land clearance are so obviously needed that I believe this approach will prove to be useful.

The United Nations Resolution: A United Nations approach to the utilization of surpluses also has been in the news lately. Recently, acting on a resolution sponsored by the United States and several other governments, the United Nations General Assembly passed a resolution which primarily does two things. First, it calls on the Food and Agriculture Organization to consider immediately methods by which present programs for moving surplus foods could be improved, with particular attention to provisions for consultation and the dissemination of information. Secondly, it calls on the FAO to study in cooperation with several other groups what new techniques could be developed to add to the useful disposition of surpluses. The UN itself in ECOSOC will be considering the way that surpluses can be used to support economic development. There are other features in the resolution, but I think the two mentioned above are the most important. The UN approach is especially interesting because for many years there have been arguments as to whether international agencies should be brought more directly into program operations. It seems to me that the UN action provides for international study of the existing mechanisms, which means largely the United States Public Law 480 program and the international development of new programs which would supplement rather than replace existing programs. However, I am not trying

to predict where this effort will lead. One of the obvious actions possible is UN sponsorship of food programs in those countries where individual national action is not feasible.

SUMMARY

Now let me summarize very briefly the present status of the special export programs, the demand outlook of the recipient countries, and the policies followed in distributing our agricultural surpluses.

First, the bulk of the supplies moving under special programs are going to the underdeveloped countries of the world. These are the countries which are striving mightily to improve their living standards. These are countries which are receiving substantial financial assistance from the United States and other countries in their economic development efforts. I am convinced that the special programs of food and fiber assistance are of great value in this total effort and are making a positive contribution to our foreign economic relations.

Second, although the underdeveloped countries of the free world will substantially expand their agricultural production in the next decade, they will need more imported food from abroad than before. They will need 150 million more bushels of wheat from abroad than they have been importing in recent years. But whether this must be furnished under special programs depends on whether these countries substantially improve their foreign exchange earnings; whether the demands will be made on the United States depends in part on the position of other exporting countries.

Finally, there are the effects of these special programs on other exporting countries. We can help recipient countries but still do harm to foreign economic relations if we seriously damage world commercial markets. I don't believe we have done so. Our stocks of wheat are higher--others are not--world

trade has increased at an unprecedented rate in an amount exceeding our gain--and prices have remained remarkably stable--much more so than coffee or cocoa, for example. I believe we have protected the legitimate interests of other exporting countries. We have obviously caused problems from time to time, but we have always been prepared to take corrective action.

Let me close with this thought. We believe special export programs serve a useful purpose. But most of the countries receiving these commodities regard the assistance as transitional. They want to increase agricultural production at home and expand their foreign exchange earnings so that they can purchase their needs commercially. We should not permit assistance in the form of special export programs to interfere with our assistance designed to help them become self-sustaining.

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U.S. ECONOMIC RELATIONS WITH FOREIGN COUNTRIES:
TRADE AND FINANCE

Frank A. Southard, Jr.
U.S. Executive Director
International Monetary Fund

The international trade and financial relations of the United States are large and expanding. In the first full year after the end of the war our total payments to foreigners for all purposes, including the purchase of goods and the outflow of capital, amounted to \$13.3 billion and foreign payments to us amounted to \$14.4 billion, or a total turnover of about \$28 billion. By 1959 our payments had risen to \$28.6 billion and our receipts to \$24.0 billion, or a total of almost \$53 billion. Our commodity exports in recent years have tended to run somewhat more than 5 per cent and our imports somewhat less than 5 per cent of gross national product. While these percentages are small compared with those of most other industrial countries where foreign trade is a much more important part of gross national product, they are nevertheless large enough to be impressive. In addition, our capital market has become the most important one in the world and the less-developed countries look to us for substantial amounts of capital each year in the form of loans and grants.

In 1959 the United States exported commodities to the amount of about \$16 billion, of which \$12 billion consisted of manufactured goods other than foods, and the balance consisted of crude materials and crude and manufactured foods. Not all of these latter items came from agriculture but most of them did. On the import side, of about \$15 billion in commodity imports in 1959, about \$6.5 billion consisted of crude materials and crude and manufactured foods. The other \$8.5 billion consisted of manufactures.

Our economic and financial relations with the rest of the world are reflected in our balance of payments. At the end of the war, with all of the other industrial countries suffering from destruction and obsolescence of plant, the United States was the only important producer, particularly of capital goods, which was in a position to make prompt deliveries on a large scale. Exchange restrictions were widespread as countries sought ways to husband their scant foreign exchange reserves, and the restrictions were aimed especially at the United States. But despite those restrictions and notwithstanding the very large assistance which the United States gave to war-torn countries in the early postwar period, the United States ran a surplus in its balance of payments until 1950. This can be seen in Table 1, in the column

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headed "Recorded Gold and Liquid Dollar Gains by Foreigners". But in the eight years beginning in 1950 the United States ran an over-all deficit in its balance of payments for every year except 1957--a deficit which averaged about \$1.3 billion per year. A part of this deficit resulted in a gold outflow, as can be seen by Table 2, amounting to \$1.7 billion net for the eight years. But the greater part of it was reflected in an increase in foreign holdings of liquid dollar funds in the United States. By the end of 1957 foreign official and private liquid dollar assets in the United States amounted to \$14.9 billion, excluding the holdings of the International Monetary Fund and other international institutions. About \$8.5 billion of this had been added during the eight years.

To some extent, this evolution was desirable and, indeed, was in keeping with the U.S. policy of assisting these countries to improve their international payments positions. The other industrial countries had come out of the war with their foreign exchange reserves badly depleted and the reserves declined still further during the first few years following the end of hostilities. The European Recovery Program and other foreign aid was planned almost as much to achieve financial reconstruction as to encourage physical reconstruction. But this process of financial reconstruction had in large part been completed by the end of 1957.

Beginning in 1958, and in large part reflecting the economic and financial revival of the other industrial countries, the U.S. payments position moved much more sharply into deficit, and by 1959 a balance of payments problem had emerged which was the very antithesis of the "dollar gap" problem which had so much preoccupied economists and financial experts in the earlier years. In fact, the over-all deficit in 1958 was \$3.5 billion and in 1959 was \$3.8 billion.

What does this payments deficit mean, in what way has it created a problem, and will the problem still be with us in 1961? The United States is a great power--in fact the greatest power politically and economically in the world. We are the largest exporter and the largest importer. Our military responsibilities in the free world are tremendous and, as I remarked before, our capital market is the principal source of economic assistance for the less-developed countries and its broad facilities are used extensively by the other industrial countries. In order to carry out these responsibilities, we must earn by exporting goods and services in a large enough amount to pay for our imports of goods and services (including our overseas military expenditures) and to leave a surplus which over the years will equal or come close to equaling our net outflow of private capital, and the foreign financial assistance which our Government makes available chiefly to the less-developed countries.

Except for 1959, the United States has had a current account surplus (Table 1), including receipts and payments for goods, services, and military expenditures abroad. In 1958 and 1959 our net outflow of private capital and government financial assistance averaged about \$5 billion per year. Therefore, if we were in those two years to have had a reasonable equilibrium in our balance of payments, we would have needed a current account surplus of about that amount. In fact, as Table 1 shows, the current account surplus in

1958 was only \$2.3 billion and in 1959 there was actually a current account deficit of \$100 million. Consequently there were large over-all deficits amounting to a total of \$7.3 billion in the two years taken together. This led to a net gold outflow of \$3 billion and to an increase of foreign liquid dollar holdings of more than \$4 billion.

The U.S. dollar is the most important reserve currency in the world. As long as there is confidence in the dollar, foreigners are willing to hold dollars in substantial amounts. The most important prerequisite to confidence in the dollar is a reasonable equilibrium in the balance of payments--that is, Americans and foreigners alike must be shown that the United States can compete abroad and can do so on a scale which earns enough in foreign exchange substantially to pay for our imports of goods and services and to cover our military expenditures overseas and the net outflow of long-term funds, both private and public. We will overstrain confidence in the dollar if our gold reserves continue to decline, and if foreign short-term dollar claims continue to rise, as a result of large payments deficits.

What has been happening in 1960 and what may we expect? Fortunately, in 1960 the current account of the United States has shown a very encouraging improvement. Table 1 indicates that U.S. exports of goods and services increased in the first quarter and again in the second quarter, while imports of goods and services remained fairly constant. Table 2 shows that in the first six months of 1960 there was an increase of almost \$2 billion in merchandise exports--more than half of the increase went to Europe. Figures for the third quarter were not available, but what is known of developments indicates that there was a further improvement and that on the basis of the first nine months the current account for the year may show a surplus of somewhere between \$3 and \$3.5 billion, compared with \$2.3 billion in 1958 and an actual deficit in 1959.

Taking merchandise trade alone, we may have an export surplus of more than \$4 billion in 1960, compared with less than \$1 billion in 1959. This increase in exports covers a wide range of commodities, but some are worth special mention. Raw cotton exports were abnormally low in 1959 and they have rebounded in 1960. The same is true for semi-manufactured metals. Exports of aircraft, due chiefly to large exports of jet planes, almost doubled in the first nine months of 1960. On the import side, it may be noted that imports of automobiles and parts have declined substantially in 1960 and imports of iron and steel manufactures, which bulged during the steel strike of 1959, have in 1960 dropped back somewhat.

To repeat, in 1960 a good out-turn has been developing in the current account--we are likely to earn enough to pay for our imports of goods and services, cover our overseas military expenditures, and have a surplus of \$4 billion or more to apply against net capital outflow. But we are developing an over-all payments deficit which may by the end of 1960 show little or no improvement over the \$3.8 billion level of 1959. As Table 1 shows, in the first quarter the deficit was running at the rate of \$2.6 billion and in the second quarter at \$2.9 billion. On this basis there appeared to be a reasonable prospect that the over-all deficit might be in the neighborhood of \$3 billion, or possibly a billion dollars less than in 1959. However, principally under the impact of relatively higher interest rates in Western Europe

as compared with the United States during the last six months, there has been a substantial outflow of short-term funds which in the third quarter was quite large. It seems likely that the over-all deficit for 1960 will be more than \$3 billion and might not be much below the 1959 level. As was to be expected, a portion of this outflow of funds took place in the form of gold rather than a build-up of official dollar balances, and thus far in 1960 the outflow of gold has somewhat exceeded the 1959 level, although it is far below the large out-flow of 1958 which is shown in Table 2.

The problems and prospects in the field of U.S. trade and financial relations with foreign countries as we look forward to 1961 and beyond do not lend themselves to precise estimate. But some general points can be made with fair confidence.

There is a compelling need to strive for more improvement in our merchandise account. This means that we must maintain our present near-record export level of \$20 billion per year and expand it as much as we can--an additional \$2 billion per year over and above this level is not at all an exaggerated target for the near term. This task will not be easy since competition in world markets is keen and some favorable factors which have helped our exports in 1960 may not be available to the same extent in 1961. There were special reasons for increases in exports of cotton and aircraft in 1960 which cannot be anticipated in 1961. Moreover, our exporters have undoubtedly benefited from the elimination of discrimination against our trade in 1959 and 1960 and we cannot expect much new improvement from this factor in the next year or two. Also, the European demand for our goods has been based on boom conditions, which may tend to level off in the next year. However, firm fiscal and monetary policies and a steady purchasing power of the dollar should help our producers in their efforts to find new customers and larger sales throughout the world.

We are working for an improvement of our international payments policies within the framework of a more salutary pattern of international payments throughout the free world. This has involved a greater amount of "tying" of our assistance to the less-developed countries. Our efforts have also resulted in sharply reduced discrimination by other industrial countries against our exports. We must persuade other industrial countries that there remain two main doorways which must be used and kept open if the free world is to continue to have the most useful magnitudes and forms of international payments. The first of these is the one through which assistance flows to the less-developed countries; and the other industrial countries must contribute to this flow in increasing amounts. The second doorway is that through which must flow to Western Europe in increasing amounts, from the United States and from the less-developed countries, a larger volume of goods, some of which are now kept out by tariffs and other restrictions.

Table 1. United States Balance of Payments, 1946-60^{1/}
(In billions of dollars)

Total U.S. Payments ^{2/}	Foreign Payments in U.S. ^{2/}	Net U.S. Receipts on Unrecorded Transactions (errors & omissions)	Recorded Gold & Liquid Dollar Gains by Foreigners			Current Account -- Goods and Services		
			U.S.	Receipts on Unrecorded Transactions	Gains by Foreigners	U.S. Exports	Imports ^{3/}	Balance
			Payments ^{2/}	(errors & omissions)				
1946	13.34 ^{4/}	14.4	0.2	-1.34 ^{4/}	14.7	7.0	7.7	
1947	18.84 ^{4/}	19.6	0.9	-1.84 ^{4/}	19.7	8.2	11.5	
1948	16.8	16.6	1.2	-1.0	16.8	10.3	6.4	
1949	16.5	16.0	0.8	-0.2	15.9	9.7	6.1	
1950	17.5	14.0	5/	3.6	13.9	12.1	1.8	
1951	19.9	19.0	0.5	0.3	18.9	15.1	3.7	
1952	19.8	18.2	0.5	1.1	18.1	15.8	2.3	
1953	19.7	17.3	0.3	2.1	17.1	16.6	0.4	
1954	19.9	18.2	0.2	1.5	17.9	16.1	1.9	
1955	21.9	20.3	0.4	1.1	20.0	17.9	2.1	
1956	25.8	24.2	0.6	1.0	23.7	19.8	3.9	
1957	27.4	27.1	0.7	-0.5	26.7	20.9	5.8	
1958	27.2	23.3	0.4	3.5	23.3	21.1	2.3	
1959	28.66 ^{4/}	24.0	0.8	3.86 ^{4/}	23.5	23.6	-0.1	
1960, Quarterly ^{7/}								
1	29.0	26.6	-0.1	2.6	25.8	23.6	2.2	
2	30.0	27.7	-0.6	2.9	27.1	24.0	3.2	

Source: U.S. Department of Commerce.

1/ Excludes grant-financed U.S. military supplies and services.

2/ Public and private U.S. capital outflow and remittances are entered net in U.S. payments; foreign payments in United States include foreign long-term investment here.

3/ Includes military expenditures shown separately in Table 2.

4/ Includes subscriptions to the International Monetary Fund and the International Bank amounting to \$0.3 billion in 1946 and \$3.1 billion in 1947.

5/ Less than \$50 million.

6/ Excludes \$1,375 million subscription to International Monetary Fund. Seasonally adjusted, at annual rates.

Note: Detail may not add to totals because of rounding.

Table 2. United States Balance of Payments, 1950-60
 (In millions of dollars)

	First Half										
	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
<u>U.S. Payments, Total</u>	<u>17,526</u>	<u>19,858</u>	<u>19,843</u>	<u>19,685</u>	<u>19,876</u>	<u>21,944</u>	<u>25,846</u>	<u>27,374</u>	<u>27,206</u>	<u>28,621</u>	<u>14,781</u>
Imports	12,098	15,142	15,760	16,644	16,088	17,937	19,829	20,923	21,053	23,560	11,754
Merchandise	9,108	11,202	10,838	10,990	10,354	11,527	12,804	13,291	15,315	7,481	7,674
Services	2,414	2,670	2,965	3,119	3,131	3,587	4,070	4,467	4,690	5,155	2,578
Military expend.	576	1,270	1,957	2,535	2,603	2,823	2,955	3,165	3,412	3,090	1,502
Remit. & pensions	523	457	545	617	615	585	665	702	722	779	388
Private capital (net)	1,265	1,068	1,158	369	1,619	1,211	2,990	3,175	2,844	2,301	1,172
Direct	621	528	850	721	664	779	1,859	2,058	1,094	1,310	538
Other long-term	495	437	214	-185	320	241	603	859	1,444	902	475
Short-term	149	103	94	-167	635	191	528	258	306	89	-105
Government loans ^{2/}	156	156	420	218	-93	310	629	958	971	3582/	687
Long-term	414	458	847	716	306	383	545	993	1,176	1,0182/	570
Repayments	-295	-305	-429	-487	-507	-416	-479	-659	-544	-1,013	-384
Short-term (net)	37	3	2	-11	108	343	563	624	339	353	185
Government grants (net)	3,484	3,035	1,960	1,837	1,647	1,901	1,733	1,616	1,623	830	377
Investment in U.S.	53	182	141	206	244	346	530	361	24	548	336
Errors and omissions	-30	470	505	296	167	446	643	748	380	783	525
Increase in Foreign Gold and Liquid Dollar Assets	3,602	343	1,092	2,102	1,516	1,149	968	468	3,477	3,8262/	2,1012/
Gold	1,743	-53	-379	1,161	41	-306	-798	-2,275	731	492	1415
Dollars	1,859	396	1,471	941	1,218	1,108	1,274	330	1,202	3,095	1,271

Source: U.S. Department of Commerce.

^{1/} Excludes grant-financed U.S. military supplies and services.

² Excludes \$1,375 million subscription to International Monetary Fund, of which \$344 million was paid in gold.

3/ Including other capital.
4/ Including military transactions for cash and credit.

WHAT TO DO ABOUT THE AGRICULTURAL OUTLOOK?

J. Carroll Bottum
Purdue University

United States agriculture is going through a great adjustment. It has made tremendous changes during the past decade and it has much change yet to make before it is in reasonable adjustment. To answer the question, "What to do about the agricultural outlook?", it is necessary to put 1961 into perspective with respect to these longer run changes. Our farmers are now more interested in the three to five year outlook than the six month outlook.

If in 1950, you had asked an individual to tell you the adjustments that would take place in agriculture during the next 10 years, and he had told you correctly, he would have had to say:

- (1) Agriculture will have at home one-fifth more people to feed by 1960--or 180 million people.
- (2) It will be feeding these well with the widest variety of food at the lowest relative costs in the history of the nation.
- (3) It will do it with five percent less land under cultivation.
- (4) It will do it with one-fifth less labor on farms.
- (5) It will do it with a decrease of about one-fifth in the number of farms.
- (6) It will use one-fifth more capital.
- (7) It will use 30 percent more capital inputs.
- (8) It will use X increases in technology and management.
- (9) At the end of the period, we will have eight to nine billion dollars of products in storage and an agricultural plant geared to produce four to eight percent more total products than can be marketed at reasonable prices.

There have been two dominant forces which have brought about these changes during the fifties, (1) mechanization, and (2) increased yields per acre.

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Beginning around World War I, output per agricultural worker began to increase faster than the population and the demand for food. From that point on, it required less people in absolute numbers to produce the food and fiber for the Nation. At that point, we also began to combine farms and this trend has continued at an accelerated rate during the 1950's. It just doesn't take as many people on farms today to produce the increasing supplies of foods that we now need as it did 10 years ago.

Beginning in the early 1950's, for the first time in the history of this Nation, crop yields began to increase faster than the population and the demand for food. With this situation, it just doesn't take as many acres in crops to meet our greater food needs today as it did 10 years ago.

The problems associated with both people and land not moving out of agricultural production as rapidly as technology has advanced have resulted in the surplus of farm products. This and other associated factors is the cause of the farm income problem.

At this period in our history when we are attempting to prove to the world that our system can out-produce the communistic system and still protect the dignity of man, the emphasis is on more progress, not less. I believe this emphasis will continue in the decade ahead.

New knowledge knows no boundaries, industrially or geographically. With this national attitude and goal, and with the knowledge we already have and that which will be coming out of the agricultural laboratories, I believe the two forces of mechanization and increased crop yields will continue to bring about the need for adjustments in agricultural resources during the decade of the sixties. During the sixties, I believe we will also have some improvement in the livestock feed conversion ratio other than in poultry.

Therefore, as we look ahead to the decade of the sixties, I see the possibility of the following changes in our agricultural resources:

- (1) Cultivated land will continue to move out of crop production, perhaps 40 to 80 million acres.
- (2) Labor will continue to flow out of farm production into other occupations, perhaps three-fourths or more of the youth born on farms.
- (3) Capital needs will increase.
- (4) Capital inputs purchased outside of agriculture will increase.
- (5) The management level will increase.

To this background I would like to add four additional assumptions which I believe to be valid and then with this framework to turn to what we should do about the agricultural outlook in 1961.

- (1) In the period ahead, we will have reasonably full employment and an active economy except for the normal moderate business recessions.

- (2) We will have approximately two percent increase in the demand for farm products to feed and clothe our population in the decade ahead, but that we will adopt new technology at a sufficiently rapid rate that land and human resources will need to flow out of agriculture to keep it in adjustment.
- (3) Unskilled and untrained labor will find more difficulty in finding employment in the next decade in our highly developed economy than during the past decade.
- (4) The family commercial farm will prevail in most areas of the United States as the main producing unit purely on the basis of economic competition.

Now, with this framework and background, what should we do about the outlook? I should like to divide my suggestions into two divisions: first, how can we help farmers with their group problems, and second, how can we help him with his individual problems?

- (1) We should help total agriculture, including the marketing agencies, to expand the outlets for farm products both at home and abroad, and to perfect the market. To the extent that we can expand the outlet and perfect our market, it will lessen the adjustments that have to be made in agriculture.
- (2) We should help farmers and society develop overall land policies which make it possible for some of our cultivated land to move out more easily into other uses. As a Nation we now need more of our crop land in recreation uses, pulp wood, timber production, grass, watersheds, as well as in building sites, roads, and industrial development.

From the founding of this country up until 1920, we had a definite land use policy of getting the land out into the hands of the individual and getting it developed. We promoted it by the Homestead Act, the land grants to railroads, and in many other ways. Now we need an overall policy of getting the land into the best uses for the Nation. To meet the current pressing agricultural situation, we may need to take short-run measures for adjusting land use but gradually make the shift to longer-run policies. It needs to be made productive in other uses and conserved for future needs.

I should like to make the point clear here that any of the supply control measures result in the retirement of land whether it be complete quotas or free prices or anything in between.

- (3) We need to develop ways to improve the training and to facilitate the movement of farm youth into other occupations. In many cases, it is simply a matter of shifting from the farm production into the farm supply or farm marketing areas, which have grown and will continue to grow as the agricultural production phase of our agri-business declines. The one-third or so of our rural youth that go

on to college receive the training that makes them mobile to move into many occupations. I am speaking of the two-thirds or so who do not go on to college who need the opportunity to be trained in the skills or semi-skilled areas. If they are going to stay in agriculture, they need training in that vocation even more than now, but if they are moving into other areas, as many must, they need an opportunity to be trained in these areas.

- (4) We need an improved educational program to help rural people and other allied with agriculture to help make the adjustments in all the institutions associated with agriculture. These same forces that are changing agriculture are making necessary changes in our communities, in our schools, in our churches, in our taxation, in our credit needs, in our supply organizations, in our marketing organizations, in our adult educational programs, and in every institution associated with agriculture. The farm people and others associated with agriculture need technical information as they determine how to adjust these institutions.
- (5) We continue to need programs that aid in increasing the efficiency in agriculture for this is the way we progress. Our problem is not to decrease progress but to step up the adjustments that must accompany it.

Now let us turn to the question of how we can help farmers individually use outlook information.

- (1) We need to help all producers and allied organizations to incorporate into their businesses the outlook information presented at this conference that is pertinent to their businesses. I shall make no attempt to summarize all the excellent information presented. I believe we have a bigger task than ever before but more of it is in the larger-run area. The farm magazines and the press have done a tremendous job in recent years in dissemination of the short-run phases.
- (2) We need to gear our outlook information to the needs of different groups in agriculture.

The farm youth needs information that will help him to take a good hard look at the prospective job opportunities in the Nation and in appraising his aptitudes. If he has the interest, the ability, and the possibility of obtaining an economic farm unit, then I believe he has an opportunity in farming equal to those in other areas. However, more than three-fourths of our farm youth will have to find their opportunities in other lines than farm production. If they do, their greatest opportunity remains in going to college, fitting themselves for skilled or semi-skilled work. They need help in making this decision and if they do not fit themselves for one of these areas, I believe they are short changing themselves.

Most middle-aged farmers with something less than an economic sized unit will probably continue to find their greatest opportunity

in farming. They need information that will help them adopt the technology that fits their farm, information on how to specialize, and in some cases, how to obtain outside income. With prospective land prices, it seems questionable to me how far they should go in debt in the present circumstances to enlarge their farm unit.

The commercial family farmers with economic sized units have the problem of keeping up on the latest technology and adjusting their business to the changing technological and economic environment. Their problem is one of getting the lowest unit cost and in marketing their products well. It is the five, ten, and twenty thousand dollar investment in which these farmers are concerned today.

- (3) We should help farmers recognize that this is a period when the emphasis should be on efficiency rather than volume and that production rates should be kept high.
 - (a) Some farmers can lower their unit costs by greater intensification of their rotation if these changes are accompanied by the proper practices.
 - (b) Some farmers can further lower their costs with greater livestock specialization and mechanization. That is, in reducing their number of livestock enterprises from three or four to one or two, and then having sufficient volume to mechanize.
 - (c) Some farmers can reduce the high labor costs by further mechanization but should be careful in not going too far in the push button direction.
- (4) Farmers need to be kept informed relative to long-time trends so that they are not over-extended in such periods as appear to be coming up in hogs and beef cattle in 1962.
- (5) We need to point out to farmers that this is a time for conservative optimism in financial management. This is a period when there is a premium on financial flexibility.

What I have tried to say is that we need certain group action that aids in bringing about some fundamental adjustments in agriculture. Then within this framework of overall policy, each farmer needs to continue to maximize his income and improve his efficiency, even though this may make necessary further national adjustments.

Each farmer is in competition with other farmers in other States and we as a Nation are in competition with other farmers in the world, and from improved efficiency of all farmers, society benefits and is strengthened in the world struggle. However, this program of increasing efficiency needs to be buttressed by policies which help bring about the adjustments that must accompany efficiency if farmers are not to be continued to be penalized for their great contribution to society.

It isn't very often that I get the opportunity to talk about the road ahead for agriculture with so many professional colleagues having such a great influence with farmers. After a long week of listening to speeches, I know you'll want me to be brief. But we are now at the heart of the issue--What to do about the Outlook. It is a terribly important subject and each of you may play a very important role in deciding it since so many farmers look to you for guidance. The issues which are involved go to the roots of our philosophy of how our economic system should work, and about which there is much dogma that often acts as a wet blanket to smother discussion of new or different ways of doing things. But Extension is the business of bringing farmers new ideas, and this implies keeping an open mind. A healthy skepticism is important, but certainly it is not too much to ask that it be constructive and not dogmatic.

So in these few minutes I want to do my best to convince you of the correctness of three points:

1. Growth of technology in agriculture is giving this country such an imbalance in food supply in relation to demand that unless positive steps are taken to deal with the problem, the prospect for reasonable and long run farm price improvement during this decade is very dim.
2. The idea that lower prices are a healthy thing since they lead to fairly rapid adjustment of farm resources and will soon be followed by a period of reasonable prices and incomes has not worked out and there are good reasons why it will not work out in the next 5 or so years.
3. While we must work much harder on the long run adjustment problem, it's equally important that we deal positively and constructively with the important problem immediately ahead; and the most sensible approach to this is to give major emphasis to programs for direct management of market supplies, commodity by commodity, wherever they are needed, and where producers are willing to subject themselves to the market discipline necessary to achieve the price improvement they say they want and for which a reasonable case can be made. Programs which focus directly on resource adjustments should play a supplementary role, but probably will be an essential part of the broad program of adjustment which is needed.

Now to begin with, let's be clear that we are talking about market prospects and the people whose problems are importantly market oriented. To define out of our discussion the so-called low-income, small-farm problem is not to deny its importance. I'm simply saying that under almost any possible realistic set of prices, there will be many farmers still experiencing low incomes. Higher prices will help them, but not very much. Their problem represents a tragic waste of

*/ Remarks at Annual Outlook Conference, U.S.D.A., Washington, D.C., 11/17/60.

1/ Professor of Agricultural Economics, University of Wisconsin.

human resources which I hope a greater effort is made to deal with. But our primary concern at this session, I believe, is with the unhappy market prospects which most commercial farmers have to look forward to during this decade. True, there will be short periods, as now, when some producers will take hope from modest price increases. But in the main, it appears that unless something is done about it, farmers will continue to adopt new technology and production will continue to be stepped up at a rate faster than markets are growing. This will act as a long run drag on prices.

We take it for granted that farmers will make their individual adjustments to prospects as they see them and as their resources and inclinations permit. In fact, most of us would say that this is the primary way most problems should be handled, if possible. But for a long time now, we have also recognized that there are many things which the private enterprise system and individual producers acting alone cannot do very well. The market mechanism simply is somewhat less than perfect in directing resources in ways which will satisfy social needs for everything. I suppose education, highways and conservation are among the best illustrations of this although there are many others. We use public funds to achieve desirable public goals and some refer to these expenditures as subsidies. But regardless of their name, they must continue to the test that a public purpose is being served which is sufficiently important to warrant this use. Tests appropriate to the market mechanism are often not relevant in making judgements about spending public funds.

Now in the case of agriculture there seems to be increasing concern and doubt about the wisdom of continued expenditures for the type of price support program we have known. There seems to be no end in sight, and consequently some doubt that money spent has been doing as effective a job as it might. In fact, it now appears that while our price support programs have done a reasonably good job of placing a floor under some farm prices, we have perhaps been lulled into a false sense of security and were not until recently made fully aware of the ominous developments which foreshadowed the supply problems of the 1960's. So we find ourselves now in a situation where a public is becomingly jaded with continued discussion of agriculture's problems while at the same time the prospective magnitude of these problems is on the increase.

Agriculture's market problems are important both on the selling and the buying side. But perhaps we shrug our shoulders at the prices farmers pay since there seems to be so little we can do about them. Agriculture's production expenses increased more during the fifties due to price increases than due to increases in the amounts of production items used. Inflation in the nonfarm economy is terribly important to farmers. It used to be that farmers would gain with inflation, but this doesn't seem to be true any more. So long as agriculture's supply potential is not checked, this divergent tendency of prices and costs probably will continue.

An integral part of the growth of farm technology is the increased reliance by farmers on nonfarm supplies of raw materials to make this revolution a reality. Machinery, fertilizer, antibiotics and all the rest are key elements in keeping our agricultural plant going at its increasingly rapid rate. But while this nonfarm economy of ours is subject to many of the same kinds of economic forces as agriculture, it has been able to achieve a form of economic organization which, in the aggregate, does a pretty good job of setting its prices at levels which will adequately cover costs and of gearing its production to levels which will clear markets at the prices which have been set. Businessmen think this is a sensible way to do business. But it also means that when farmers act in just

the opposite way, that is produce about all they can without gearing their production to the size of the market a prices they want, we have the cost-price squeeze continuing. Businessmen just can't understand why farmers continue to turn out these immense volumes of food and fiber and sell them at prices which farmers say won't cover their costs. This is just one of the reasons why there is less and less sympathy for farmers and the farm problem.

The fact is simply that in this country most people are eating as much as they want--and many of them perhaps more than they should. The demand for food in the United States is highly inelastic and getting more so every year. Higher consumer incomes will expand the demand for food in the ratio of about one or two in ten, in the aggregate. So what we end up with is that food demand in total is growing slowly, roughly in proportion to population growth and slightly as consumer incomes rise, but not much more than the combined effect of the two. Some factors may and are shifting demands among the several foods, but without much change in the total.

I think most economists agree that in this decade domestic demand expansion measures will not solve the farm problem--that we can't eat our way out of our farm problem at reasonable farm prices. Foreign aid programs like P. L. 480 can play an important role for certain key commodities, but most people would not regard this activity as being a permanent solution.

Now before these remarks on expanding markets are misunderstood, let me say that I have not suggested here that some demand expansion effort and work on industrial uses for farm products should not be made. Anything which these measures can do will be helpful, of course. But I believe that the probable benefits from this effort will be too little and too late to more than make a tiny dent in the overall supply and price problem which exists because of agriculture's potential to produce.

Where do we stand on this supply potential? The Department has spelled out in several publications what the best judgement of its technicians is on food production potentials during the next 5 to 15 years. In some of these reports they have also tried to project how food markets could be expected to grow. You have probably heard repeated reference to these in this series of meetings so I won't try to summarize them. In general they have concluded that farmers will continue to expand output too rapidly for quite a few years regardless of price prospects (see Senate Document 77). Lower prices may slow down the overall rate at which output expands, but it will take a long time for this economic wringer to have much effect on output.

In the face of these prospects what can a farmer do acting alone. For those who elect to stay in farming, or who have no effective means of getting out, their only way of contending with low price and income prospects is to try to produce and sell more. And this leads to precisely the wrong result. But farmers follow this course of action because they are price takers; because each one assumes he can sell all he produces at the going price. And until farmers get together and become more market conscious they'll probably continue this way.

So farmers have a long tradition of ignoring the price consequences of their actions. But in addition, many farmers believe that to produce all you can is the good thing to do. There's a certain mystic quality about high-level production. But the manager of a nonfarm business who produces without regard to the size of his market and what can be sold at the price he has set is soon in trouble. It's about time this idea was applied to agriculture in dealing with the farm problem.

So the question we really face is this: Can we organize the way our agriculture works so that new technology can be introduced in it in an orderly way, but at the same time not lead to such a great increase in output that the market for all farmers is destroyed? I think it can be done and done in a democratic way. But only if farmers themselves are made fully aware of what it takes to do it and what the consequences are likely to be if they don't. And this, to me, is the big job the Extension Service must face up to in their role with commercial farmers. You people don't have to take sides, but you must know the facts and issues and be prepared to help farmers make an intelligent decision.

But it's at this point that some people start to gag. The philosophical implications of democratic group action in the market place seem to run counter to some of the traditions and values we have been taught were good. It's strange that group action to achieve social goals in the fields of conservation, education, and many other fields is widely accepted. But there seems to be some mystic notion that market prices are sacred, and should never be tampered with. This, of course, is nonsense. Prices are set by people like you and I, with all our faults, and manipulated as best they can to serve the self-interest of those who set them. Farmers have as much right as anyone else to set the prices at which they will sell the things they produce. But there are laws designed to protect the public interest which restrict collusive action in price setting. So any group action by farmers, of course, cannot occur without the concurrence of Congress in the form of enabling legislation, and inevitably such group action will be circumscribed by rules of conduct to protect the public interest.

So now how do we proceed to manage supplies of farm products reaching markets, to improve farm prices and incomes, and permit adoption of technology in agriculture without a perennial surplus hanging over our heads. There are two general approaches to the supply management problem. The one that we are most familiar with focuses directly on farm resources. Acreage allotments, the soil bank and acreage reserve, and land retirement are all names for supply management programs which focus directly on a farm input. These programs try to manage supplies by controlling one resource only. No one seems to have pushed the idea of limiting farmers use of fertilizer, new machinery, antibiotics or any of the other important production resources. In fact, some of these devices might be more effective than trying to retire land.

Currently the notion seems to be that an effective supply management job might be done by retiring 60 to 90 million acres, depending on who you listen to. Programs to do this might be voluntary or compulsory, and of course there seems to be more public appeal in the voluntary approach. But what has to be done to achieve land retirement in a voluntary way is to create a new farm enterprise called idle land. This idleness must be paid for at competitive rates. Such a program to increase the demand for land, of course, will help to maintain and even increase its value. But I have much doubt of the wisdom and continued public acceptability of this kind of purchased idleness. The compulsory land programs possibly would cost fewer dollars, but since some land retirement probably would have to be allocated to most farms in a democratically organized program, this would interfere with on-the-farm resource management decisions and lead to widespread reduction in production efficiency. It should also be noted that both the voluntary and compulsory land retirement approaches are probably quite crude devices, for there is little certainty that 60 million retired acres will be properly distributed among the several farm products and result in the right level of total output and the right product mix. I would call this the haphazard road to supply management. The treasury costs will be large with no end in sight. In a couple of years now, soil bank acres are coming back to haunt us unless this

program is continued. So I'm less than enthusiastic about the land retirement approach as the major peg to hang a program on. But I'll be frank and say that there are some problem areas which pose such difficult problems that activate land retirement programs, in spite of their disadvantages, will have to play an important role.

Since I've now discarded most of the important alternatives, we should be able to see the virtues in the approach which makes most sense to me. This is the use of programs for direct management of market supplies.

I suppose Willard Cochrane of Minnesota and George Brandow of Pennsylvania have studied the implications and ramifications of this approach to the problem more than anyone else in the colleges. My study of it has been primarily in terms of its possible application to milk. There is no single blueprint which everyone refers to in describing this approach, and everyone who has given it any thought will have some pet idea to push.

What are the essentials of this approach? To paraphrase Cochrane, it is the conscious adjustment of supply to demand, commodity by commodity, year after year to yield prices in the market that have been determined as fair by some responsible agency. This implies an institutional framework of controls to limit marketings, with approved national supply levels translated to individual producers. And it further implies that such supply management programs which are started will proceed only after a sufficient majority of producers have approved the proposal, and conversely, that a sufficient majority of producers can dissolve a program, once started, if they choose.

How this basic set of ideas will be implemented in formulating a program for specific commodities will depend of course on such things as the nature of the commodity, arrangements under which it is marketed, the desires of producers and perhaps many other factors. But to get it started, established producers would probably be assigned bases which would reflect their recent history of production. Through a process of hearings and presentation of evidence during which views of producers and others would be presented, some designated agency would announce a tentative decision on next year's price goal and the approved market supply consistent with this goal. Producers probably would vote to approve or disapprove this tentative decision before it could finally be adopted. If the approved market supply amounted to a 5 per cent reduction below the total of the national base, each regular producer would be entitled to market 5 per cent less than his individual base and would be issued marketing certificates in this amount. These marketing certificates would be surrendered to handlers when farmers market their product.

The program mechanics thus far might be even simpler than those involved in acreage allotments. Furthermore the base and marketing certificate constitute a formal limitation on market supply and not the indefinite limitation implied by an acreage allotment where a producer can market everything he can squeeze out of his allotment.

How would the price goals be achieved? Since handlers would now be bidding for supplies which were below what they would be without the program, the enhanced bargaining position of most farmers should bring higher prices. But producers and their cooperatives would still have to bargain for what they get. But now they would be bargaining from a position of strength, not weakness. It would be desirable for the price goals to be backed up by firm price guarantees which were, say, no less than 95 per cent of the price goal. The agency should be prepared to

purchase the commodity at this guaranteed price if necessary, or if more convenient, to make direct payments to producers representing the difference between the average price received and the guarantee.

Suppose a milk producer had real good pastures. What would he do with the extra milk? This would depend on what kind of program producers had approved for themselves. The program might prohibit marketings without certificates. In the case of excess wheat, Canadians do not permit it to leave the farm. But it would be possible to devise arrangements which would permit marketing of excess production subject to specified penalties or fees. This latter course makes some sense to me, but it should be emphasized that if the penalty on excess marketings is not severe enough, this feature could greatly weaken the program. The money collected through such fees on excess marketings could be used to finance purchases made by the agency in support of prices, or in making direct payments to producers of non-storable commodities whose prices were below the guaranteed level. This penalty on surplus would bring home to each farmer the full price consequence of supplying the market with more than is needed.

If marketing certificates could be transferred among producers, those farmers having a poor crop could sell unused certificates to those with excess production. Thus there would be an element of insurance in the program.

Any program involving producer bases, if it operates very long, soon runs into the base transfer problem. This has been true of the acreage allotment program and it would be true of a program involving market bases. In the allotment programs it has been solved by tying the base to the land and permitting bases to transfer when title to land is transferred. Certain inefficiencies have developed where bases have been tied to the land and these should be avoided if possible.

Under the direct market supply management programs, producer bases probably would be issued only once and that would be the end of it. A producer wishing to acquire new or additional market rights would have to purchase them from base holders who retire, shift to other production or from estates. If the fees on marketing excess production were used, there would be no prohibition on marketings, so a farmer could produce and sell at the surplus price. But there is no need to weaken the program by issuing new bases. As population and national demand grows, the expanded market would be allocated pro rata among existing base holders by issuing more marketing certificates.

Since there are sound reasons for believing efficiency in agriculture would be promoted if rather easy base transfers among producers were permitted, most economists suggest that if a base holder wished to sell his base to someone else, he be permitted to do so. Ordinarily a farmer would sell his base when he sells his farm. A dairy farm without a base would not be worth much. But when a farmer transferred a base separately from his farm, this would generally mean he was shifting into some other line of production or perhaps going out of farming. Permitting such base transfers allows some of those who wish to expand to do so and thus tend to promote efficiency in production. As population shifts, the geographic distribution of production can respond to this movement through the use of transferrable bases. This approach leaves farmers free to manage their own resources subject only to the marketing limitations.

The cost of a series of programs for direct management of market supplies is quite uncertain unless one is able to specify many of the program details. If you wish to make your own assumptions, you can make good ones or select some which will

show this proposal in the worst possible light. I am convinced this latter course was followed in the report released by the Department in the heat of the recent campaign. Probably only the uninformed put much stock in it.

But in spite of the cost uncertainties, several points are worth noting. So far as administrative costs are concerned, it is doubtful that such costs would be much more--if any more--than present program administrative costs, especially when high costs of large volume storage are considered.

Now for the most important part of the cost, the non-administrative costs to the general public, the analysis is rather complex. One must consider several kinds of costs when comparing programs. These include (a) the flow of money payments from consumers through the marketing system to farmers which result from higher prices, (b) the flow of money payments from consumer through government to farmers for price support or direct payments, and (c) the costs to farmers and the public generally of wasted or inefficiently used resources which are the direct result of the program in question. Measuring the first and third of these is a very difficult matter. And in comparing the first and second, there probably will be important differences in how the burden is distributed.

There should be no question that the objective of the direct market supply management approach is to concentrate the costs in the first one of these by bringing about higher consumer prices for food, and to reduce to very low levels the costs of (b) and (c). Under this type of program, the price support program as we have known it would probably be reduced to negligible proportions after a few years, except for wheat. And instead of reducing efficiency in production as many of the alternatives do, this approach would promote it.

If producers could be satisfied with a program which offered them some hope for price improvement in the face of the difficult and prolonged supply problems which lie ahead, I can't think of any major food except wheat where it would be necessary to cut back production in getting such a program started. Programs in which marketings were held to this year's level for a couple of years or so would result in gradual price improvement for most commodities.

It probably would take enabling legislation to start such programs. Perhaps the simplest procedure would be to amend the Agricultural Marketing Agreements Act of 1937 by expanding coverage of commodities and permitting limitations on marketings.

But if legislation were adopted to permit this approach, it doesn't seem likely to me that there will be a mad rush among producer groups to develop programs for every commodity. If this approach is tried, it may very well start slowly. In the first place, this approach represents a departure from programs which farmers are familiar with. There is an educational job to be done before farmers would even be in position to make an intelligent decision about this or some other alternative. Secondly, there are alternatives to be considered. The present price support programs, where they are in force, do give some price protection and many farmers would rather not rock the boat in hopes this will continue. Unless farmers really feel they will be confronted with reduced price supports and see little or no hope for price improvement without positive action, my guess is that there will be few who would choose this route. At the same time, if farmers are led to believe the public will be willing to pay for enough land retirement to raise hopes for the future, I suspect they will choose this as the easy way. But if farmers fail to choose this direct market supply management route through ignorance of this as an alternative or through lack of knowledge of their probable supply problems in the next few years, then you must feel some responsibility in the matter. I'm confident that your feeling of responsibility to farmers will lead many of you to inform yourselves of the merits and shortcomings of the several alternatives and make this information available to farmers.

FOR Release
Nov. 14 PM

ADDRESS BY
THE HONORABLE DON PAARLBERG
SPECIAL ASSISTANT TO THE PRESIDENT
AND FOOD-FOR-PEACE COORDINATOR
ON THE OCCASION OF THE ANNUAL NATIONAL
AGRICULTURAL OUTLOOK CONFERENCE
DEPARTMENT OF AGRICULTURE
9:45 a.m., MONDAY, NOVEMBER 14, 1960

WORLD ECONOMIC SITUATION AND OUTLOOK

The time has long passed when it was necessary to explain that a discussion of the international situation is basic to a review of the domestic outlook. I trust that our interdependence with the rest of the world is now so clear as to be self-evident.

One aspect of this interdependence may need clarification. It has often been said that when we sneeze the rest of the world catches pneumonia. This is not true. We have sneezed several times during the post-war period and no one abroad caught pneumonia, nor did we ourselves become gravely ill. The rest of the world has had some ailments which proved not to be contagious. Let us say that what is true of people is true of nations; while not every illness becomes an epidemic, the good health of each is the concern of all.

In terms of historical comparisons economic health in most of the world today is generally good, and one can predict with some assurance that it will continue so during the period specifically under review in this Conference, that is, during 1961.

In Western Europe, industrial expansion continues, though at a rate somewhat less than the phenomenal growth of recent years. Fiscal and monetary disciplines have been pursued responsibly. Western Europe is today and will be for the coming year both a tough competitor and a strong market for this country.

Japan continues her rapid growth and has become a major export market as well as a large supplier of goods to this country.

Business activity in Canada reached a peak in early 1960 and since then has been declining.

In Latin America, overall economic output is barely keeping ahead of rapid population growth. The relative price weakness for primary products has worked a hardship on that area and has inhibited its advance. There seems little likelihood that the terms of trade for primary products will improve appreciably during the year ahead.

In Africa, political turmoil overshadows economic developments and is likely to hold that dominant role during the coming year.

The Far Eastern countries have somewhat improved their position. Both exports and imports increased, but with the area strongly affected by the behavior of primary commodity prices, prospects for further substantial improvement are not bright. The countries of Asia, Africa, the Middle East and Latin America will continue to need both agricultural and industrial products for which they lack foreign exchange.

The Communist Bloc continues its interest in expanding trade with the free world, but the level of such trade remains low. In 1959, shipments to the rest of the world from European and Asiatic Bloc members combined made up only about four percent of total non-Bloc trade.

In late September, Per Jacobsson, Managing Director of the International Monetary Fund, commented thus in describing the international picture:

"Looking around the world today, it is not surprising that many people take a sombre view of the widespread social and political unrest and the serious problems to be solved. It is thus most satisfactory that there are so many signs of continued progress in the economic and monetary fields, where in many respects developments have been distinctly favorable. In a great many countries investment has been at a high level, and the volume of production has been generally rising -- often at a rapid pace -- while there has been a conspicuous expansion of world trade, which has now continued for nearly two years."

This, I think, is an appraisal with which most of us would agree. And, barring unpredictable political or military outbreaks between the East and the West, it provides the basis for a relatively favorable economic prospect at home and abroad during the year ahead.

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In the field of agriculture, the picture is one of unevenly-distributed abundance. World food production in 1960-61 is expected to be larger than last year and above the high level reached in 1958-59.

First, let us look at the importing nations, and among them, first at those which are able to pay in dollars for what they buy.

Western Europe, our biggest dollar export market for farm products, had a poor wheat crop and a good crop of feed grains. Our exports of food and feed grain during the coming year will undoubtedly reflect this situation. Japan, another large dollar market, will need to import large quantities of food grain despite her big rice crop. Dollar markets in Latin America and Canada will require large quantities of certain American farm products to supplement their own supplies.

In many of the developing nations of Asia, the Eastern Mediterranean area, Africa and Latin America, agricultural production con-

tinues to fall short of what is needed for good health. and political stability. These major food and dollar deficit countries have about 755 million people and an annual internal food deficit of perhaps 60 to 80 million tons, in terms of wheat equivalent, to reach optimum nutritional levels.

Food and fiber supplies are abundant in the major exporting countries: the United States, Canada, Argentina, Australia, New Zealand, Burma, and Thailand. These countries have about 270 million people and an annual excess of about 35 million tons of food above what now moves into consumption.

The matching of excess production with the needs of the developing countries is the basic purpose of the Food-For-Peace program. By moving excess food and fiber into use in addition to normal commercial marketings, a number of constructive purposes are served:

1. The needs of friendly foreign people are met.
2. The foreign economic policies of the United States Government are served.
3. Our agricultural capability, so often considered a problem, is used as an asset, to the advantage of our farm people.
4. The conventional dollar market is allowed to function, without the burden of oppressive supplies.
5. Storage costs are relieved.

Recently the General Assembly of the United Nations voted unanimously to use the U.N. as a clearing house to associate the excessive supplies of agricultural exporting countries with the needs of those deficit countries who are unable to buy on conventional commercial terms.

There are hazards in the Food-For-Peace program, it is true -- hazards to the supplying nation, to the nation which receives, and to other exporting nations. For the greater part, these hazards have been averted or minimized. The Food-For-Peace program, which is considered by some to be the province of idealists and temporizers, might better be considered as subject matter for hard-headed realists.

There may be some who are puzzled by my injection of the Food-For-Peace program into a discussion of the "world economic situation and outlook." Let me say that I am able to discuss the Food-For-Peace program under any assignment and before any audience, with or without rationale. Supporting my venture in today's assigned topic are these substantial considerations:

Without the Food-For-Peace program the outlook for international economic and political stability would probably be less favorable than, in fact, it is.

Without it the prospect for American farm exports and farm income would be less optimistic.

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This group is concerned with agricultural economics, a study which

merges two separate but related fields. Up to this point, I have been emphasizing the first half of this two-worded discipline; in the remainder of my remarks I shall emphasize the second.

It is clear that the world is producing a great quantity and variety of goods and services, a quantity sufficient to provide a generally improving level of material well-being during the next year and during the years ahead. A major question is the manner in which these goods are exchanged as between one nation and another.

For a quarter of a century, with leadership from both political parties, this country, in cooperation with other governments, has pursued a liberal trade policy. By this I mean that we have moved in the direction of fewer and less onerous restrictions on international trade, rather than in the direction of additional and more harsh impediments.

This policy grew out of a realization that restrictive trade policies deny to our citizens the advantages of specialization and exchange, place a low ceiling on our export capabilities, and antagonize those nations whom we need as friends.

In twenty-five years' time, tarriff reductions have been negotiated on most of the dutiable items imported into this country. Similarly, most of our trading partners have reduced tarriffs on a broad range of duty-paying articles exported from the United States.

The extent of these reductions is marked indeed. Duties on goods imported into this country have been reduced to approximately one-fifth of their former effective level. About half of this reduction is the result of cuts in tarriff rates; the other half is the consequence of a rise in the overall level of prices. Before the Trade Agreements Program was undertaken, revenue collected on goods imported into this country equalled about fifty percent of the value of dutiable items; presently the figure is not fifty but eleven percent.

Tarriff rates of other countries have been similarly reduced; the movement toward liberal trade has involved many nations.

Coupled with these downward adjustments of tarriff barriers have become a number of desirable developments. Living levels at home and abroad have risen, in part as a result of increased trade. The nations of the free world, threatened by the international conspiracy known as Communism, find themselves more closely associated than previously. A part of this improved situation is attributable to the liberalization of trade.

A great contribution of liberal trade, together with associated programs of foreign economic policy, is to be found in the record of the post-war period. With the help of foreign exchange reserves accumulated over a period of time, and with current earnings generated by our exports, we launched a two-pronged program. We helped rebuild the war-torn countries of Europe and the Far East; and we helped to augment the capital resources and lift the technical competence of the less-developed nations of Asia, Africa, and Latin America.

In achieving this notable accomplishment we reduced trade barriers on a multilateral basis, adding to the volume of trade and permitting the rebuilding of foreign dollar holdings.

We exported large quantities of American capital to Europe and to other parts of the world, both through government programs and through encouragement of private investment.

We engaged in off-shore procurement by the military, by the International Cooperation Administration, and by other agencies, an operation which had the effect of helping the free world rebuild its industrial plant and its dollar holdings.

We provided economic and technical assistance to the less-developed countries.

These policies have largely been successful. In the industrial countries of Europe and in Japan, foreign investment increased and trade expanded. These nations recovered, the so-called dollar shortage disappeared, the free world was strengthened, currency convertibility reappeared, and the role of the United States as leader in the field of foreign economic policy was admirably filled. The economic recovery of Europe and Japan were objectives which we sought and which with the help of a liberal trade policy, we have helped to achieve. The economic, political, and military position of the free world is made the more secure by this achievement.

What we confront, in fact, is the success of our past policies. This success carries with it a number of major consequences.

Europe and Japan have now renewed their historic economic competition with us. The European industrial countries, as well as Japan, have modernized their industrial plants and have substantially closed the technical gap between their industries and ours. It may well be that their wage rates do not adequately reflect this development. In any event, we are meeting and will continue to meet tough competition from them in our own market, in their markets and in the markets of the rest of the world. As a result of differences in price and other factors, our net export balance is not as large as it would otherwise be. Our gold reserves, while large by most practical criteria, nevertheless have declined from \$24 billion to \$18 billion. Liquid dollar claims on our gold reserves have increased and some of these are being cashed. The strength of the dollar is being tested in the currency markets of the world. To the extent that our net export balance falls short of our hopes, limitations are placed on our capabilities for economic and military assistance abroad. It is basically through our excess of sales of goods and services abroad over purchases that we can give such assistance.

Those people who have never liked our liberal trade policy attribute this balance of payments problem to the liberal trade and overseas assistance policies which we have in the past pursued. They advocate a reversal of the trade policy which this country has followed for a quarter of a century. The contention is made that imports must be restricted in order to prevent further loss of our gold reserve. The argument is offered that our trade barriers must

be raised because of the enhanced competitive power of Europe and Japan. There are strong efforts to cut back our Mutual Security Program. The statement is voiced that the developing countries have toolled up and industrialized, partly with our help, and that with their growing export capabilities they constitute a rising threat to American industry.

Thus our liberal trade policy is under fire.

This is nothing new. The principle of liberal trade has been under fire from earliest times. One reason for the failure of the Articles of Confederation was the attempt of the states to restrict the trade flowing across state lines. One of the first acts of Congress after our country was established was to pass legislation placing a tariff upon the importation of sugar. Every step of the liberal trade movement of the last quarter century has been taken in the face of opposition.

Everyone desires to sell in a protected market, and to buy at low prices. This is not a characteristic found exclusively among those engaged in foreign trade. When we as individuals have discarded our own little personal and private arrangements for economic preferment -- our special deals and hand-tailored small-scale monopolies -- we shall be in good position to cast the first stone. When the economics professor willingly discards the trade-impeding attributes of the Ph.D. degree, when one labor union freely permits the organization of another, when the established retail merchant endorses the discount house -- then all shall be in good position to criticize those who resist a liberal foreign trade policy.

In truth, if some protective device is adopted, either domestically or in terms of foreign trade, then adjustments are made which result in a sort of equilibrium, taking into account the given obstruction to trade. Eliminating or scaling down the protective device may then cause hardship to those who had been protected. One can take comfort from the fact that the general welfare is enhanced. But this does not deny the fact of individual hardship in particular cases.

The only thing new about the present attack on liberal trade policy is the fact that our special circumstances now provide the opponents of liberal trade with a new set of arguments.

Presently, three differing views exist with respect to prospective trade policy.

First, there are those, a diminishing number, who see no particular difficulty in our adverse balance of payments or in the outflow of gold or in the stiffer competition from Western Europe and Japan. They would make no meaningful adjustments in the foreign economic policy specifics which have been followed for the past fifteen years. They would continue to encourage the export of American development capital to Western Europe. They seem to think that large-scale transfers of gold and liquid dollar claims to other industrialized nations could continue indefinitely without any untoward consequences. To those persons, our conduct of foreign trade matters should be in

terms of a prescription rather than a policy. Though the patient has recovered, the treatment should continue. This approach lacks the dynamism which trade policy ought to have.

Second, there are those to whom I have already referred, who bring under fire the whole concept of liberal trade. The devices they propose are numerous and resourceful. They would misuse, through outright protectionism, the legitimate measures designed to provide responsible administration of our trade policy. They would have the Congress intervene directly, to provide tarriffs or quotas or both, for industries and commodities which encounter stiff competition from abroad. They would sharply reduce the level of technical assistance and loans to the underdeveloped nations, either for the purpose of conserving dollars or through fear that these countries might become more competitive with us. The sum total of these actions, if they were taken, would be to raise prices to consumers, to reduce the level of living below what it would otherwise be, to cut back the level of our exports, to offend our friends abroad, to invite retaliation, to turn our trading partners toward the Soviet Bloc, and to abdicate our position of leadership among the trading nations of the free world.

In apposition to those who attack our liberal trade policy, root and branch, and in contrast with those who see no problem at all, there is a third group, steadily increasing in number. These people are dedicated to liberal trade as a flexible policy, not as a rigid prescription. They recognize the changes which flow from the revival in Europe, from the adverse balance of payments, from the gold outflow, and from the re-establishing balance of payments, from the revival in Europe, from the adverse balance of payments, from the gold outflow, and from the re-establishing of international competition after a long interlude of depression, war and post-war reconstruction. They seek to find solutions through expanded trade rather than through contraction. They express the position of the Administration.

I shall name six forms of liberal trade policy which seem to me appropriate for our changed circumstances.

1. Sound fiscal and monetary policy.

There is disagreement as to whether we have priced ourselves out of foreign markets. It is clear, however, that we have lost export markets and that if we are to regain them we shall have to be sure that our prices are attractive. We shall have to be competitive not only in terms of price but also in terms of quality and promotion. Price, quality, and promotion support the three-legged stool of American exports; attention must be paid to all three legs if the stool is to stand upright. Promotional activity cannot satisfactorily overcome a substantial price disadvantage.

There is a hazard as great as pricing ourselves out of foreign markets, and that is the danger of pricing ourselves out of our own markets. Prices that are above competitive world levels attract imports to our shores

in the same manner that a magnet attracts iron filings.

A responsible fiscal and monetary policy, through its effects on costs and prices, should make United States products more competitive with foreign-made goods at home and abroad.

For many years we have been shielded from the discipline of international price competition. During the depression of the 'thirties, foreign trade was hardly normal. During the war years of the 'forties, trade was largely in terms of lend-lease, and competition did not govern in the ordinary sense. During the post-war recovery of the early 'fifties, our foreign competition had not yet fully overcome the devastation of war. Now, during the 'sixties, we face renewed competition in price, quality, and promotion. Today's generation needs to learn the competitive international discipline which our fathers knew.

An upward tilt to our price structure would make it harder for us to export, and would unduly attract imports to our shores. To restrain this upcreep of prices we must, in good times, show a balanced budget. We must, by sound credit policy, prevent the creation of excessive quantities of the medium of exchange. We must restrain the short-sighted use of concentrated economic power which, unwisely applied, could boost our wages and prices to so high a level as to stifle our exports and invite a flood of imported goods.

The alternative to responsible fiscal and monetary policy is a more restrictive policy regarding imports, with all the economic, political and diplomatic problems which would result.

2. Further reduction of barriers to American exports.

During the post-war years, European countries used a complex set of trade barriers, based in part on the need to conserve foreign exchange. Among these were quotas, exchange controls, bilateral arrangements, export subsidies, and embargoes. This was part of the scaffolding which helped rebuild their productive plant.

The European productive plant is now restored, more modern and more productive than before. With the structure erected, the scaffolding is coming down. While some of these barriers have been removed, others remain and should be dismantled, particularly with respect to agriculture.

The dollar is now the world's reserve currency, and the trading nations have a great stake in a strong dollar. It was in the interest of the United States to assist in the reestablishment of strong European currencies; it is in the interest of the rest of the world to help keep the dollar a strong reserve currency. Liberal trade policy helped in the one and can help in the other.

3. The export promotion drive.

Early this year President Eisenhower sent to the Congress a special message in which he outlined the Administration's plan to help increase exports, cooperatively with private business. This includes a strengthening of our commercial representation overseas, special export credit insurance for non-commercial risks through the Export-Import Bank, an expanded trade fair program, and informational services to American firms which have the possibility of entering the export market. A committee of businessmen has been constituted to increase export consciousness and major efforts continue to be required.

If we exercise the proper overall restraints with respect to the level of prices, the promotional drive can be successful. In any case, this move toward a better trade balance is properly in the direction of liberal trade and expansion, rather than protectionism and contraction.

An increased share of our overseas economic assistance can be in the form of American goods rather than American dollars.

4. Effective use of existing administrative machinery.

In the development of our liberal trade policy, the Congress wisely provided a number of administrative procedures as a safeguard against the sometimes-adverse consequences of a heavy flow of imported goods.

There is the Escape Clause, a provision which allows redress in the form of quotas or tariff increases if past tariff reductions have resulted in serious injury.

There is the National Security Clause, an authority which provides for the exclusion of articles from abroad if dependence upon them would impair our mobilization base.

There is Section 22 of the Agricultural Adjustment Act, a procedure which permits the establishment of quotas or fees if imports seriously interfere with our price support programs.

There is the Buy-American policy, with the purpose of giving limited preference to American suppliers for materials purchased by the Federal Government.

These instruments are tested, proven, and flexible. Taken together, they provide a resourceful set of tools with which to meet the new circumstances of international trade.

5. Use of the General Agreement on Tariff and Trade.

One of the important tasks of liberal trade policy is to associate ourselves constructively with the European Common Market and with the European Free Trade Association. There is concern that the European nations, in moving toward the elimination of trade barriers among themselves, might undertake to raise their barriers against other countries, including our own. These barriers are sometimes specifically directed at our agricultural products. The General Agreement on Tariff and Trade provides the Multilateral machinery for meeting this problem.

Many of the industrial countries, unlike the United States, have not extended most-favored-nation treatment to Japan. Thus there has been a restricted opportunity for Japan to trade in the important markets of the world. Her exports, therefore, have been disproportionately directed to this country. The General Agreement on Tariff and Trade can be used to work out matters of this kind. It should be used vigorously in behalf of a liberal trade policy designed for the new circumstances in which we find ourselves.

6. Increased sharing, responsibility for strengthening and defending the countries of the free world.

As countries like West Germany, Italy, Britain, France, and Japan improve their productive capacity and increase their foreign exchange holdings, they can provide additional capital to meet the needs of the less-developed nations, and they can meet a larger share of the costs of defending the free world.

To the degree that this is accomplished, the balance-of-payments problem of the United States can be eased and the pressure for restrictive trade policies lessened. As the less-developed countries advance in productivity through the infusion of additional capital from these new sources, they become better trading partners for us. Thus the cause of liberal trade is advanced.

A liberal trade policy is more important to most of the underdeveloped countries than is United States aid. It is also less painful to the American taxpayer.

The essence of liberal trade policy is that it be living, moving, adaptable to changing circumstances. Just as our liberal trade policy helped adjust the balance-of-payment problems of Europe, so it can now help adjust our own. Just as our liberal trade policies helped rebuild our allies in war-torn Europe, so it can promote the well-being and add to the number of our allies among the less-developed countries of the world.

Liberal trade policy is under fire, heavier fire than it has sustained for many years. If we adapt ourselves to present and prospective circumstances, liberal trade is a moving target. If not, it is a sitting duck.

Those who believe in liberal trade should be impelled to constructive action. We are at the beginning of a chapter, not at the end of a book.

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